

# **City of Roseville Financial Policies**



**Effective July 1, 2026**

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# City of Roseville Investment Policy

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## I. INTRODUCTION

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the City of Roseville (City) are based on state law and prudent money management. All funds will be invested in accordance with this investment policy and Article 2 of Chapter 4 of the California Government Code. This policy is in compliance with the provisions of the California Government Code, Sections 53600 through 53659, and the authority governing investments for municipal governments.

## II. SCOPE

The investment policy applies to all financial assets of the City as accounted for in the Annual Comprehensive Financial Report (ACFR). Policy statements outlined in this document focus on the City's pooled funds, but will also apply to all other funds under the City's Assistant City Manager/Chief Financial Officer's span of control unless specifically exempted by statute or ordinance.

Proceeds of debt issuance shall be invested in accordance with the permitted investment provisions of their specific bond indentures. If, in the opinion of the City's Assistant City Manager/Chief Financial Officer, matching the segregated investment portfolio of the bond reserve fund with the maturity schedule of an individual bond issue is prudent given current economic analysis, the investment policy authorizes beyond the five-year maturity limitation as outlined in this document. The intent to invest in securities with longer maturities shall be disclosed in the permitted investment language authorized by the City Council in an indenture of trust.

This policy does not cover funds held by the California Public Employees Retirement System, nor funds of the City's deferred compensation program, Other Post Employment Benefit Trust or Pension Trust.

## III. PRUDENCE

The standard of care to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. The "prudent investor" standard states that:

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

#### IV. OBJECTIVES

The primary objectives, in priority order, of the investment activities of the City shall be:

##### A. Safety

Safety of principal is the foremost objective of the investment program. City investments shall be undertaken in a manner that seeks to ensure preservation of Capital in the portfolio. To further achieve the safety objective, the amount invested in all investment categories is limited to a percentage of the portfolio as defined in the section "VIII. PERMITTED INVESTMENT INSTRUMENTS".

##### B. Liquidity

The investment portfolio of the City will remain sufficiently liquid to enable the City to meet its cash flow requirements.

##### C. Return on Investment

The investment portfolio of the City shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

#### V. DELEGATION OF AUTHORITY

The City Council hereby delegates management responsibility of the investment program to the Assistant City Manager/Chief Financial Officer. The Assistant City Manager/Chief Financial Officer shall be responsible for all transactions undertaken and shall establish

a system of controls to regulate the activities of subordinate officials. The Assistant City Manager/Chief Financial Officer may delegate investment decision making and execution to the Finance Director in absence of the Assistant City Manager/Chief Financial Officer. No person may engage in an investment transaction except as provided under the limits of this policy unless specifically exempted by statute or ordinance.

#### VI. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

#### VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Assistant City Manager/Chief Financial Officer and/or his/her designee will maintain a list of approved financial institutions authorized to provide investment services to the City in the State of California. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1. A determination should be made to confirm that all approved broker/dealer firms, and individuals covering the public agency, are reputable and trustworthy. In addition, the broker/dealer firms should have the ability to meet all of their financial obligations in dealing with the Public Agency. The firms, and individuals covering the agency, should be knowledgeable and experienced in Public Agency investing and the investment products involved. No public deposit shall be made except in a qualified public depository as established by the established state laws. All financial institutions and broker/dealers who desire to conduct investment transactions with the public agency must supply the Assistant City Manager/Chief Financial Officer with a completed broker/dealer questionnaire and certification of having read the City’s investment policy. In addition, broker/dealers must certify annually of having read the City’s investment policy.

#### VIII. PERMITTED INVESTMENT INSTRUCTIONS

The City shall limit investments in any one non-government issuer, except investment pools, to no more than 5% regardless of security type.

- A. **U.S. Treasury obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest. Up to 100% of the City’s investment portfolio may be invested in government obligations.
- B. **Federal agency or United States government-sponsored enterprise obligations**, participations, or other instruments, including those issued by or fully

guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. This shall include any mortgage pass-through security issued and guaranteed by a Federal Agency with a maximum final maturity of five years. Purchase of Federal Agency issued mortgage-backed securities authorized by this subdivision may not exceed 20% of the City's surplus money; all other investments in Federal Agency securities are unrestricted.

- C. **Obligations of the State of California or any local agency within the state**, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency, provided that the obligations are rated in one of the two highest categories by a nationally recognized statistical-rating organization (NRSRO). Up to 100% of the City's investment portfolio may be invested in California municipal obligations.
- D. **Registered treasury notes or bonds of any of the other 49 states** in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of these states.
- E. **Repurchase Agreements** used solely as short-term investments not to exceed 30 days. Up to 100% of the City's investment portfolio may be invested in repurchase agreements.

The following collateral restrictions will be observed:

1. Only U.S. Treasury securities or Federal Agency securities, as described in section VIII. PERMITTED INVESTMENT INSTRUMENTS, paragraphs (A) and (B) will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the City's custodian bank by book entry, physical delivery, or by a third-party custodial agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value, 102% of the funds borrowed against those securities. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed on a weekly basis and the value of the underlying securities brought back up to 102% no later than the next business day.
2. Market value must be calculated each time there is a substitution of collateral.

3. The City or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.
  4. The City may enter into Repurchase Agreements only with primary dealers of the Federal Reserve Bank of New York.
  5. The City will have specific written agreements with each firm with which it enters into Repurchase Agreements.
  6. Reverse repurchase agreements will not be allowed.
- F. **Banker's Acceptances**, otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

Purchases of Banker's Acceptances may not exceed 180 days maturity or 40% of the City's investment portfolio.

- G. **Commercial paper** of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in section "VIII. PERMITTED INVESTMENT INSTRUMENTS", paragraph (G1) or (G2).
1. The entity meets the following criteria:
    - a. Is organized and operating in the United States as a general corporation.
    - b. Has total assets in excess of five hundred million dollars (\$500,000,000).
    - c. Has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.
  2. The entity meets the following criteria:
    - a. Is organized within the United States as a special purpose corporation, trust, or limited liability company.
    - b. Has program wide credit enhancements including, but not limited to, over collateralizations, letters of credit, or surety bond.

- c. Has commercial paper that is rated “A-1” or higher, or the equivalent, by a NRSRO.

Purchases of eligible commercial paper may not exceed 397 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation.

Purchases of commercial paper may not exceed 40% of the City’s investment portfolio.

- H. **Medium-term corporate notes** issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category "A" or its equivalent or better by a nationally recognized rating service.

Purchase of medium-term corporate notes may not exceed 30% of the City’s investment portfolio.

- I. **Federal Deposit Insurance Corporation (FDIC) insured or fully collateralized time certificates of deposit.** Purchases of time certificates of deposit in combination with negotiable certificates of deposit may not exceed 30% of the City’s investment portfolio.

- J. **Negotiable certificates of deposit or deposit notes** issued by a nationally or state-chartered bank, a state or federal savings and loan association, a state or federal credit union, or a federally-licensed or state-licensed branch of a foreign bank provided that the senior debt obligations of the issuing institution are rated "A" or better by an NRSRO.

The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the money are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency or any person with investment decision making authority in the administrative office manager’s office, budget office, auditor-controller’s office, or treasurer’s office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposits.

All certificates of deposit must be properly collateralized in accordance with Section 53652 of the California Government Code or fully insured by the Federal Deposit Insurance Corporation (FDIC).

Purchase of time certificates of deposit in combination with negotiable certificates of deposit may not exceed 30% of the City's investment portfolio.

- K. **Investment in placement service assisted deposits, including certificates of deposit**, is limited to 50% of funds that local agencies invest in depository institutions until January 1, 2031. On January 1, 2031, the limit will return to 30% of the amount local agencies invest in depository institutions. Placement service assisted deposits provide allocation to multiple financial institutions in order to maintain deposit insurance from the FDIC or the National Credit Union Association.
  
- L. **State of California's Local Agency Investment Fund** is an investment pool managed by the State Treasurer's Office. The Local Agency Investment Fund (LAIF) portfolio should be reviewed periodically. Investment in LAIF may not exceed the legally authorized limits.
  
- M. **Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission** under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds and with assets under management in excess of \$500,000,000.  
  
The purchase price of shares of beneficial interest purchased shall not include any commission that the companies may charge and shall not exceed 20% of the City's investment portfolio. Further, no more than 10% of the City's investment portfolio may be invested in shares of beneficial interest of any one money market fund.
  
- N. **Shares in a California common law trust** established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California that invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended. Up to 100% of the City's investment portfolio may be invested in this investment type.
  
- O. **Supranationals** are United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the

International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA-", its equivalent, or better by an NRSRO.

Purchases of supranationals shall not exceed 30% of the investment portfolio of the City. Supranationals are permitted by California Government Code § 53601 (q) effective January 1, 2015.

- P. **A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment leased-back certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond.** Securities issued by private companies eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Securities issued or guaranteed by the United States, a federal agency, or United States government-sponsored enterprise are not subject to the limitations placed on privately issued securities. No more than 20% of the City's surplus funds may be invested in this type of security.

Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only on the date of purchase. Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. If an investment falls below the minimum purchase rating, the Investment Review Committee will perform a timely review to sell or hold the investment.

Q. **Prohibited Investments**

For purposes of this policy, a derivative is defined as any security where the value is linked to or derived from an underlying asset or benchmark. Any security type or structure not specifically approved by this policy is hereby specifically prohibited. The City will not use such derivatives as range notes, dual index notes, inverse floating rate notes, deleveraged notes, or notes linked to lagging indices or to long-term indices, nor will the City invest in reverse repurchase agreements or interest-only strips derived from a pool of mortgages. The City will not invest in securities that could result in zero or negative interest accrual if held to maturity, except, in the event of, and for the duration of, a period of negative market interest rates, securities issued by, or backed by, the U.S. Government to preserve principal. This policy does not preclude the use of

repurchase agreements and callable securities, as they do not fall within the definition of a derivative as described herein.

**Summary of Maximum Percentage Limitations of Investments by Investment Type**

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality at Time of Purchase</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	5 Years	None	None	None
U.S. Agency Securities	5 Years	None	None	None
State Obligations - California and others	5 Years	None	None	None
California Local Agency Bonds	5 Years	None	None	None
Repurchase Agreements	30 days	None	None	None
Bankers' Acceptances	180 days	None	40%	30%
Commercial Paper	397 days	A-1	40%	10%
Medium-Term Corporate Notes	5 Years	A	30%	10%
Collateralized Time Deposits	5 Years	None	30%	None
Negotiable Certificates of Deposit	5 Years	A	30%	None
Placement Service Deposits	5 Years	None	50%	None
Placement Service Certificates of Deposit	5 Years	None	50%	None
Local Agency Investment Fund (LAIF)	N/A	None	None	LAIF limit
Insured Saving Accounts	N/A	None	None	None
Money Market Mutual Funds	N/A	None	20%	10%
Shares in a California Common Law Trust	N/A	None	None	None
Interest Rate Swaps	N/A	None	None	None
Supranational Obligations	5 Years	AA-	30%	None
Mortgage Pass-Through Securities	5 Years	AA	20%	None

**IX. REVIEW OF INVESTMENT PORTFOLIO**

The securities held by the City must be in compliance with Permitted Investments at the time of purchase. Because some securities may not comply subsequent to the date of purchase, the Assistant City Manager/Chief Financial Officer shall at least annually review the portfolio to identify those securities that do not comply. The Assistant City Manager/Chief Financial Officer shall report major and critical incidences of noncompliance identified through the review of the portfolio.

The Investment Review Committee will meet at least quarterly to discuss the investments in the City's portfolios.

## X. INVESTMENT POOLS

A thorough investigation of any investment pool is required prior to investing and should be monitored on an ongoing basis. The following information should be obtained and analyzed.

- A. A description of eligible investment securities.
- B. A written statement of investment policies and objectives.
- C. A description of interest calculations and their distribution, and the treatment of gains and losses.
- D. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- E. A description of who may invest in the program, how often, and what size of deposits and withdrawals are allowed.

## XI. COLLATERALIZATION

Collateral for Non-negotiable Certificates of Deposit and Negotiable Certificates of Deposit must comply with California Government Code section 53652. In addition, if the Certificate of Deposit is not FDIC insured, collateral is required equal to 110% of principal.

## XII. SAFEKEEPING AND CUSTODY

The City shall take from such financial institution a receipt for securities so deposited. All security transactions, including collateral for repurchase agreements, entered into the City shall be conducted on a delivery-versus-payment (DVP) basis pursuant to the approved custodial safekeeping agreements. The authority of the legislative body to deposit for safekeeping may be delegated by the legislative body to the Assistant City Manager/Chief Financial Officer of the City; the Assistant City Manager/Chief Financial Officer shall not be responsible for securities delivered to and received for by a financial institution until they are withdrawn from the financial institution by the Assistant City Manager/Chief Financial Officer.

## XIII. DIVERSIFICATION

The City's investment pool will be diversified to avoid incurring unreasonable and avoidable risks. The investments will be diversified by security type, maturities of those investments, and institutions in which those investments are made.

#### XIV. MAXIMUM MATURITY

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled to permit the City to meet all projected obligations while minimizing interest rate risk and maximizing earnings. Unless specified below, the maximum maturity will be no more than five years from purchase settlement date to final maturity date.

City Council has granted permission to invest the following fund accounts where liquidity is not the primary investment objective, in Federal Treasury or Agency securities with maturities up to ten years. The specified fund accounts include:

- The City's Pooled Fund, limited to 25% of the total pool
- Citizens' Benefit Fund
- North Central Wetlands Endowment
- Aquatics Complex Maintenance
- Woodcreek West Endowment

#### XV. INTERNAL CONTROLS

The Assistant City Manager/Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, fraud or misuse. An analysis by an external independent accounting firm shall be conducted annually to review internal controls, account activity, and compliance with the investment policies.

#### XVI. PERFORMANCE BENCHMARK

The investment portfolio will be designed to obtain a market rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs. The Investment Review Committee has elected to use for its performance standard the Constant Maturity Treasury (CMT) Index. For the Pooled Portfolio, the 12-month moving average yield on 3Yr CMT will be used and for Citizens' Benefit Fund portfolio, the 12-month moving average yield on 5Yr CMT will be used. All other City portfolios will follow the 2Yr CMT.

#### XVII. REPORTING REQUIREMENTS

The Assistant City Manager/Chief Financial Officer shall submit monthly investment reports to the City Manager and make these reports available to the City Council in the Finance Department office. The reports shall include, at a minimum, the following information for each individual investment:

- Description of investment instrument
- Issuer name
- Yield on cost
- Purchase date
- Maturity date
- Book value
- Par value
- Current market value
- Transaction activity
- Interest earnings summary

#### XVIII. INVESTMENT POLICY ADOPTION

The City’s investment policy shall be adopted by resolution by the City Council. The policy shall be reviewed annually by the Assistant City Manager/Chief Financial Officer and/or his/her designee and any modifications made thereto must be approved by the City Council.

#### XIX. GLOSSARY

**Agencies** - Federal agency and instrumentality securities.

**Asked** - The price at which securities are offered.

**Bid** - The price offered by a buyer of securities (when one sells securities, one asks for a bid). See “Offer”.

**Benchmark** - A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio’s investments.

**Broker-Dealer** – a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

**Certificate of Deposit (CD)** – A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CDs are typically negotiable.

**Collateral** – Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Custody** – Safekeeping services offered by a bank, financial institution or trust company, referred to as the “custodian.” Service normally includes the holding and reporting of the customer’s securities, the collection and disbursement of income, securities settlement and market values.

**Delivery Versus Payment** –A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or custodian. It ensures that securities are deposited in an eligible financial institution prior to the release of funds. Securities should be held by a third-party custodian as evidenced by safekeeping receipts.

**Diversification** – Dividing investment funds among a variety of securities offering independent returns.

**Federal Agency Obligation** – A debt instrument issued by one of the federal agencies. Federal agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

**Investment Review Committee** –The investment review committee consists of the City Manager, Assistant City Manager/Chief Financial Officer and members of the Finance Department.

**Liquidity** – An investment that can be converted easily and rapidly into cash without a substantial loss of value.

**Local Agency Investment Fund (LAIF)** – The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**Market Value** – The price at which a security is trading and could presumably be purchased or sold on a specific date.

**Maturity** – The date upon which the principal or stated value of an investment becomes due and payable.

**Money Market Fund** – a type of safe investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders and must maintain a stable net asset value (NAV) of \$1 per share.

**Offer** - The price asked by a seller of securities (when one buys securities, one asks for an offer). See “Asked” and “Bid”.

**Portfolio** – Collection of securities held by an investor.

**Principal** – the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

**Prudent Investor Standard** – An investment standard that all investments should be made with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

**Rate of Return** - The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity; on a bond, the current income return.

**U.S. Treasury** – Government debt issued by the United States Department of the Treasury through the Bureau of the Public Debt. Treasury securities are the debt financing instruments of the United States federal government, and they are often referred to simply as Treasuries. There are four types of marketable treasury securities: Treasury bills, Treasury notes, Treasury bonds, and Treasury Inflation Protected Securities (TIPS). All of the marketable Treasury securities are very liquid and are heavily traded on the secondary market.

**Yield** - The rate of annual income return on an investment, expressed as a percentage.

**Yield-To-Call (YTC)** - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**Yield-To-Maturity** - The current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity.

# City of Roseville Debt Management Policy

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## I. INTRODUCTION

The Finance Department of the City of Roseville (the “City”) has developed this Debt Management Policy (the “Debt Policy”) to provide guidelines for the issuance of bonds and other forms of indebtedness to finance necessary land acquisitions, capital construction, equipment, and other items for the City.

While the issuance of debt is frequently an appropriate method of financing capital projects and major equipment acquisitions, such issuance must be carefully monitored to preserve the City’s credit strength and to provide the necessary flexibility to fund future capital needs.

## II. SCOPE

This Debt Policy shall govern, except as otherwise covered by the law, City Charter and City Code, the issuance and management of all debt and lease financings funded in the capital markets. While adherence to the Debt Policy is desired, the City recognizes that changes in the capital markets as well as unforeseen circumstances, may from time to time produce situations that are not covered by the Debt Policy and may require modifications or exceptions to achieve City goals.

The City’s Debt Policy shall be reviewed, and updated if necessary, on an annual basis. The Assistant City Manager/Chief Financial Officer (CFO), with the assistance of the General Accounting staff, shall have the responsibility and authority for structuring, implementing and managing the City’s debt and financing program, in accordance with City Council authorizations.

## III. OBJECTIVES AND POLICY GOALS

The City has earned some of the highest credit ratings in the nation and as a result receives some of the lowest possible interest rates on its debt. These low interest rates result in a lower overall cost of capital to the City. This Debt Policy will assist the City in determining appropriate uses of debt financing, establish certain debt management goals and assist the City in maintaining its high credit ratings, while assuming a prudent level of financial risk and preserving the City’s flexibility to finance future capital programs and requirements. Additionally, this Debt Policy is intended to set forth criteria for selecting firms to provide certain financial, legal, and other related services that will ensure that a fair and open selection process is used which provides opportunities for all qualified firms, including minority and women owned businesses.

#### IV. DEBT ISSUANCE

There are three general methods of issuing debt obligations, a competitive sale, negotiated sale and private placement.

##### A. Types of Bond Sales

###### 1. Competitive Sale

In a competitive sale, security dealers submit bids either in a sealed bid or electronically secure process and the security dealer with the lowest True Interest Cost (TIC) and in compliance with the bid parameters is awarded the bonds.

###### 2. Negotiated Sale

In a negotiated sale, an underwriter or underwriter syndicate is selected through a Request for Qualifications (RFQ) process or a Request for Proposal (RFP) process. The interest rate and underwriter's fee are negotiated prior to the sale, based on market conditions.

###### 3. Private Placement/Bank Direct Purchase (BDP)

A private placement or bank direct purchase is a sale that is structured specifically for one purchaser, such as a mutual fund or a bank. BDPs are usually quicker and less expensive for municipalities than competitive or negotiated bond sales because they impose fewer requirements on the issuer. The interest rate may be a fixed or variable rate, as agreed between the issuer and purchaser. The term of the bonds may range from under 10 years to 15 years or not much longer, as agreed between the issuer and purchaser. The bonds may or may not be tax-exempt bonds for federal income tax purposes. If the CFO, or his/her designee, determines that it is in the best interest of the City from a cost or administrative standpoint, the Finance Department may negotiate financing terms with banks and financial institutions for specific borrowings.

It shall be the policy of the City to ensure the lowest risk and lowest overall interest rate to the City when issuing debt either through a competitive sale, negotiated sale or private placement, where appropriate. The City shall use the following criteria to determine whether a competitive or negotiated sale should be used.

## B. Issuer Characteristics

### 1. Market Familiarity

A frequent issuer of a well-recognized credit such as general obligation bonds can generally sell these bonds through a competitive sale since investors and underwriters are familiar with the quality of the credit. A negotiated sale may be appropriate if extensive pre-marketing to investors is desired or required.

### 2. Credit Strength

The higher the credit quality of the bonds being issued, the more likely the bonds can be sold using a competitive sale due to the high demand for high quality municipal bonds. High quality credits fare well in competitive sales.

### 3. Policy Goals

A competitive sale does not provide the City with the flexibility of choosing the underwriter or underwriter syndicate. If the CFO concludes that determining the composition of the underwriter syndicate to achieve certain policy objectives is important, then a negotiated sale will be required. However, if the CFO selects the negotiated sale solely for policy reasons then the specific rationale and criteria for selection should clearly be specified.

## C. Financing Characteristics

### 1. Type of Debt Instrument

The market favors familiar debt instruments such as general obligation bonds backed by the full faith and credit of the City. New credit types may require an education process that is more conducive to a negotiated sale until the market becomes comfortable with the credit.

### 2. Issue Size

The size of the bond sale will influence both investor interest in the bonds and the market's ability to absorb the bonds. In general, if the bond sale is too small or too large, a negotiated sale may be necessary. A small sale may require greater marketing to garner investor interest while

a large sale may be difficult for the market to absorb without the presale activity available in the negotiated sale process.

### 3. Market Conditions and Timing

During periods of stable interest rates, market timing is not as critical. However, during periods of volatile interest rates, the timing of the sale becomes more critical. Bond refundings are also often very interest rate sensitive in terms of the potential level of savings or the general feasibility of the refunding. The negotiated sale provides more flexibility in terms of the structure of the bond sale as well as the timing of the bond sale and may be more appropriate when issuing refunding bonds and when interest rates are volatile.

### 4. Story Bonds

Bonds that require a detailed explanation due to the complexity of the credit or the repayment of the bonds are often referred to as “Story Bonds”. Due to their complexity and the additional explanation these bonds require, an extensive pre-marketing campaign is necessary. Story Bonds often require a negotiated sale composed of an underwriting syndicate that is qualified to market the bonds in order to obtain the lowest financing cost for the City.

## V. FINANCIAL SERVICE PROVIDERS

### A. Selection

In connection with debt financings, financial advisors, underwriters, and other service providers will be selected from a Qualified Vendors List (QVL) developed through a periodic Request for Qualifications (RFQ) process or, for individual financings, through a Request for Proposals (RFP) process, whichever method is deemed most appropriate given the specifics of the financing. At the discretion of the CFO, contracts may be awarded on a sole source basis if it is clear that an RFQ/RFP process is not feasible or not in the best interest of the City.

For competitive sales, any security dealer meeting the qualification criteria outlined in the competitive bid notice may bid in the competitive sale. For negotiated sales, only those underwriters qualified under the RFQ/RFP process may be selected. Underwriters or underwriter syndicates will be selected by the CFO. The allocation of bonds among syndicate members will be at the sole discretion of the CFO with the approval of the City Manager or his/her designee.

B. Use of Independent Financial Advisors

The City will hire financial advisors who are independent. In the event the best available financial advisor is an investment banking firm, the firm will under no circumstances be permitted to participate as the lead underwriter or as a member of an underwriter syndicate that is bidding on the bonds for which the firm is acting as a financial advisor. In addition, if the firm has any profit sharing or other type of agreement with any member of the underwriting syndicate for the transaction in question, they will not be allowed to act as the financial advisor. In general, no agreement will be permitted that would compromise the firm's ability to provide independent advice or that could be reasonably perceived by the City as a conflict of interest. Advisors must alert the CFO, in writing, of any conflict, potential conflict, or potentially perceived conflict prior to entering into an agreement with the City, or if occurring after entering into an agreement with the City, as soon as the conflict, potential conflict, or potentially perceived conflict arises.

C. Communication/Solicitation

All financial consultants, including all investment banking firms, financial advisors, bond counsel, and other consultants hired in connection with any bond transaction will direct all communications, solicitations and questions to the CFO or his/her designee. Underwriters are reminded that under Rule G-37 of the Municipal Securities Rulemaking Board (MSRB) that a firm may be banned from providing underwriting services to the City for two years for making any political contributions to elected City officials.

VI. DEBT MANAGEMENT PROCESS – TAX STATUS

Prior to the issuance of any bonds, the Finance Department, in conjunction with bond counsel and the City Attorney's Office will evaluate the tax status of any bond sales.

A. Tax-Exempt

Interest on tax-exempt bonds is excluded from the gross income of its owners for federal income tax purposes and from California income taxes and as a result tax-exempt bonds can be sold at a lower true interest cost than taxable bonds. The City, along with bond counsel, will evaluate all projects to be funded to assess their eligibility to be funded by tax-exempt bonds. The City will make every effort to ensure that all tax regulations are complied with to ensure the bonds maintain their tax-exempt status.

B. Taxable

Certain municipal bonds are sold as taxable bonds because they are issued for purposes that the federal government deems do not provide a significant benefit to the public at large or involve “private activity”. In addition, certain tax laws such as the alternative minimum tax (AMT) reduced the tax exemption applicable to certain types of bonds and to certain taxpayers. Taxable bonds will be used whenever a particular project has the potential for private activity or other uses that may call into question the eligibility to use tax-exempt financing.

VII. DEBT MANAGEMENT PROCESS – TYPE OF DEBT

A. Fixed Rate Debt

Longer term debt usually consists of fixed interest rates over the term of the bonds and should be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost of the project over more than one budget year and generally for a period not to exceed the useful life of the project being financed. In so doing, the City recognizes that future taxpayers who will benefit from the project will pay a share of its cost. Fixed rate debt provides the benefit of fixed payments during the life of the bonds and budget certainties for long-term capital planning. However, fixed rate debt is typically longer term and carries higher interest payments (assuming an upward sloping yield curve) than variable rate debt but is not subject to changes in interest rates. Fixed rate debt is the most common type of debt issued by the City.

B. Variable Rate Debt

The municipal bond market has developed several vehicles by which municipalities can borrow at short-term, variable interest rates. Variable Rate Demand Notes may be issued with interest rates that “reset” daily, weekly, monthly or semiannually at the option of the City. Commercial paper is issued with a maturity of up to 270 days at the City’s option. As the commercial paper matures, it is resold by a commercial paper dealer for another period up to 270 days.

These products are structured as a rolling series of short-term investments and therefore are priced at the short-end of the yield curve at lower interest rates than long-term fixed rate bonds (assuming an upward sloping yield curve). By accepting the risks inherent in variable interest rates, the City can take advantage of the lowest rates available in the current market.

Factors that will be considered in the use of variable rate debt are the availability and size of fund balances to cover variable rate risk, and the budget flexibility of the program being financed. Programs with large complex capital programs may use short-term financing to fund uncertain construction cash flow requirements. The short-term debt can be refinanced as fixed-rate, long-term debt once the projects are complete. A project that must be carried in anticipation of grant funding may also be a candidate for the use of variable rate financing. Examples are the Electric, Water, and Wastewater enterprise funds.

C. Use of Alternative Debt Instruments

1. Derivative Products

The use of certain derivative products, such as swaps, swaptions and the sale of call options, allow the City to realize lower all-in costs on a new debt issuance or to receive an upfront payment. One type of swap that may be used would allow the City to issue variable rate debt in exchange for fixed payments that are typically lower than fixed rate debt. However, such products have unique risks that the City and its financial advisors will evaluate as per the City's Swap Policy. The current Swap Policy is included in Appendix A.

VIII. DEBT MANAGEMENT PROCESS – DEBT CAPACITY

The determination of how much indebtedness the City can afford begins by assessing the sufficiency of future revenues. The amount of debt issued is based on the requirements of the approved 5-year CIP, subject to the condition that sufficient revenues are projected to be available. Factors such as debt service coverage requirements outlined in the bond indentures, the impact on the residents (tax rates), and any impact on the bond ratings will be carefully considered. Different factors are considered for each type of credit. For example, Revenue or Certificates of Participation bonds for electric, water and wastewater bonds will consider the impact on customer utility bills. In the case of general obligation debt, State Statutes and the Constitution limit the amount of debt that a municipality can have outstanding.

IX. DEBT MANAGEMENT PROCESS – SECURITY OF DEBT

A. General Obligation (G.O.) Bonds

G.O. bonds are backed by the full-faith and credit of the City and are secured by secondary property taxes.

B. Revenue Bonds

Revenue bonds are supported solely from fees generated from specific Enterprise Funds. Accordingly, in order to preserve debt capacity and budget flexibility, the City will issue revenue bonds when an identifiable revenue stream can be dedicated to support the payment of debt service. The final maturity of revenue obligations will be determined by the expected life of the project to be financed and the revenues available to repay the debt. The City's various Enterprise Funds – Electric, Water, and Wastewater issue bonds backed by revenues of the enterprise. Revenue bonds are generally issued through the Roseville Finance Authority.

C. Certificates of Participation (COP) Bonds

COP bonds are an instrument evidencing a pro rata share in a specific pledged revenue stream, usually lease payments by the issuer that are typically subject to annual appropriation. The certificate generally entitles the holder to receive a share, or participation, in the payments from a particular project. The payments are passed through the lessor to the certificate holders. The lessor typically assigns the lease and the payments to a trustee, which then distributes the payments to the certificate holders.

D. Housing Bonds

Tax-exempt housing bonds are an important source of capital, providing loans for single-family homeownership and rental housing for very-low, low and moderate-income individuals and families. The relatively low tax-exempt interest rates, combined with federal, state, and local housing assistance programs, provide the necessary subsidy to create a supply of much needed, below market interest-rate loans.

E. Community Facilities District (CFD) Bonds

CFD bonds are issued and backed entirely by a Community Facilities District established under State Statutes for the purpose of managing and financing public improvements benefiting the property within the CFD. Any CFDs established by the City are reviewed by the Finance Department, and the Finance Department will supervise the issuance of the debt on behalf of the CFD with the CFD paying all costs of issuance including administrative support. The creation of a CFD must be approved by City Council and follow a detailed legal process. Please refer to the City's Goals and Policies Concerning Use of Mello-Roos Community Facilities Act of 1982, available on the City's website, concerning CFD bonds.

F. Special Assessment Bonds

Special assessment bonds are a special type of municipal bond used to fund development projects that benefit a discrete group of taxpayers within a special assessment district. Principal and interest owed on the bonds is paid from assessments on the property benefiting from the particular bond-funded project. The creation of an Assessment District must be approved by City Council and follow a detailed legal process.

X. DEBT MANAGEMENT PROCESS – PURPOSE OF FINANCING

Generally, financings may be undertaken to fund new projects “new money financing” or to refund existing bonds.

A. New Money Financing

New money issues are those financings that generate funding for capital projects. These funds will be used for necessary land acquisitions, capital construction, equipment, and other items for the City. New money bond proceeds are generally not used to fund operational activities. The City also may use its commercial paper programs to provide interim new money funding. The commercial paper notes are retired upon receipt of bond proceeds from a long-term fixed rate financing.

B. Refunding Bonds

A periodic review of the City’s outstanding debt will be undertaken by the Finance Department to determine refunding opportunities.

Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically this is done to refinance at a lower interest rate to reduce overall debt service. Alternatively, some refundings are undertaken for reasons other than to achieve cost savings, such as to restructure debt service payments, to change the type of debt instruments being used, or to eliminate undesirable covenants.

In any event, a present value savings analysis must be prepared that identifies the economic effects of any refunding being considered by the City. The savings from any particular refunding candidate shall generally be at least 5% of the refunded par amount, net of all transaction expenses. This 5% savings target may be waived by the CFO, or his/her designee, upon a finding that such a refunding is in the City's best overall financial interest and shall not be applicable for refunding transactions that are not solely undertaken to achieve cost savings.

## XI. DEBT MANAGEMENT PROCESS - CREDIT RATINGS

The City seeks to obtain and maintain the highest possible credit ratings for all categories of short- and long-term debt. The City will not issue bonds that do not carry investment grade ratings, except for CFD and Special Assessment bonds.

### A. Rating Agency Relationships

The CFO, or his/her designee, shall be responsible for maintaining relationships with rating agencies that assign ratings to the City's various debt obligations. This responsibility shall include coordinating meetings and presentations in conjunction with the issuance of debt. Full disclosure of operations and open lines of communication shall be maintained with the rating agencies used by the City.

### B. Use of Rating Agencies

The City may obtain a rating from at least one nationally recognized rating agency on all new bond issues being sold in the public market. The CFO, or his/her designee, shall determine whether or not any additional ratings will be requested on a particular financing. The CFO, or his/her designee, shall determine which major rating agencies will be asked to provide a rating. Exceptions to this requirement, such as when using a private placement, are permissible, if warranted by the circumstances and approved by the CFO, or his/her designee.

The City and/or the financing team shall notify the rating agencies by telephone or through written correspondence when the City anticipates issuing bonds. Bond documentation shall be sent several weeks prior to the bond sale to the selected rating agencies in order to provide the rating agencies sufficient time to perform their review. A personal meeting with the selected rating agencies may be scheduled if, in the opinion of the CFO, or his/her designee, such a meeting is in the best interest of the City in order to obtain the highest possible credit rating.

The City shall make every reasonable effort to maintain or improve its high quality credit ratings.

The City may request an underlying rating and an insured rating on all bond issues utilizing bond insurance.

The City shall submit its audited annual comprehensive financial report to all rating agencies utilized by the City.

## XII. DEBT MANAGEMENT PROCESS – CREDIT ENHANCEMENT

Although the City has high credit ratings, credit enhancement through the use of bond insurance or a bank facility such as a letter of credit to strengthen the underlying credit rating of certain bonds may be financially beneficial. Bonds insured by insurers rated AAA will also receive the AAA rating and thus be able to be sold at a lower interest rate. Bank facilities, such as letters of credit from highly rated banks, can also be used to provide credit enhancement.

### A. Bond Insurance

Bond insurance will be considered when it provides an economic benefit to a particular bond maturity or entire issue. Bond insurance provides improved credit quality for the bonds as a result of the insurance provider's guarantee of the payment of principal and interest on the bonds. Because of the decreased risk of non-payment, investors are willing to purchase insured bonds at lower yields than uninsured bonds, thus providing the issuer with interest cost savings.

#### 1. Benefit Analysis

The decision to use bond insurance is an economic decision. A benefit analysis compares the present value of the interest savings to the cost of the insurance premium. Insurance will be purchased when the premium cost is less than the present value of the projected interest savings. A copy of the benefit analysis shall be maintained in the files of the Finance Department.

#### 2. Selection

The City or its financial advisor will undertake a competitive selection process when soliciting pricing for bond insurance, or in the case of a competitive sale, facilitating the prequalification of bonds by insurance providers. The City recognizes that all providers may not be interested in providing bids to the City or pre-qualifying the issue. The winning security dealer in a competitive sale will determine whether it will purchase insurance for the issue. For a negotiated sale, the CFO shall have the authority to purchase bond insurance when deemed advantageous and the terms and conditions governing the guarantee are satisfactory.

### B. Bank Facilities (Letters of Credit)

When used for credit enhancement, letters of credit (“LOC”) represent a bank’s promise to pay principal and interest when due for a defined period of time, subject to certain conditions. In the case of a direct-pay LOC, the trustee will draw upon the LOC to make debt service payments and the City will reimburse the LOC provider the amount drawn on the LOC by the trustee. A stand-by LOC is used to ensure the availability of funds to pay principal and interest of an obligation only if the funds in the debt service account held by the trustee are insufficient to make the debt service payment on the bonds.

### XIII. DEBT MANAGEMENT PROCESS – STRUCTURAL FEATURES

#### A. Maturity

The final maturity of a bond sale shall be equal to or less than the remaining useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average useful life of the assets being financed.

#### B. Debt Service Structure

The Finance Department will carefully consider the debt service structure for each bond issue. Factors such as the flow of revenues available for a particular credit, the need to fill in gaps created by refunding specific principal maturities or to structure savings from a refunding in a particular year will be considered. Accelerated repayment may be considered within the bonding capacity constraints to provide capacity for future capital programs. Bonds will be amortized over a period of time not to exceed the useful life of the assets being financed.

#### C. Lien Levels

Senior, Junior and Subordinated Junior Liens for each revenue source will be utilized in a manner that will maximize the most critical constraint - typically either cost or capacity - thus allowing for the most beneficial use of the revenue source securing the bond.

#### D. Capitalized Interest

Subject to Federal and State law, interest may be capitalized from the date of issuance of the debt. Interest may also be capitalized for projects in which the revenue designated to pay debt service on the bonds will be collected at a future date, not to exceed six months from estimated completion of construction. Any use of capitalized interest will require a review by bond counsel and approval by the CFO.

#### XIV. INVESTMENT OF BOND PROCEEDS

The City shall comply with all applicable Federal, State, and Indenture restrictions, if any, regarding the use and investment of bond proceeds. This includes compliance with any restrictions on the types of investment securities allowed, restrictions on the allowable yield of invested funds, as well as restrictions on the time period over which some bond proceeds may be invested. The CFO, or his/her designee, will direct the investment of bond proceeds in accordance with the permitted investments for each particular bond issue. Investments such as guaranteed investment contracts may be considered when their use is in the best interest of the City and will be selected on a competitive basis.

#### XV. CONTINUING DISCLOSURE

The City will comply when applicable with Rule 15(c)2-12 of the Securities and Exchange Commission by filing an annual report and annual financial information with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System (EMMA) and filing material event notices within 10 days of occurrence of certain events as required by the Rule.

#### XVI. ARBITRAGE REBATE

The City shall comply with all arbitrage rebate requirements as established by the Internal Revenue Service and the Finance Department shall establish a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort shall include tracking project expenditures financed with bond proceeds, tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding tax-exempt debt issues. The CFO, or his/her designee, may enter into agreements with arbitrage service providers to assist the City with complying with arbitrage regulations.

#### XVII. INTERNAL CONTROLS AND POST ISSUANCE COMPLIANCE

The City shall comply with all applicable laws and regulations to ensure the tax-exempt status of its bonds. The Finance Department shall maintain written procedures to document the processes used to monitor the appropriate use of bond proceeds and to ensure compliance with applicable laws and regulations, and shall specify the positions and individuals responsible for these processes.

**APPENDIX A**

**Swap Policy**

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## I. INTRODUCTION

The swap guidelines outlined herein are only intended to provide general procedural direction regarding the future use, procurement and execution of interest rate swaps and options. These guidelines are intended to relate to various interest rate hedging techniques, including the contractual exchange of different fixed and variable rate payment streams through interest rate swap agreements. The swap policies are not intended in any way to require the City to modify or terminate existing interest rate swaps. The City maintains the right to modify these guidelines and may make exceptions to any of them at any time in its sole discretion. Failure to comply in any manner with these swap guidelines shall not result in liability on the part of the City to any party.

## II. APPROACH AND OBJECTIVES

Interest rate swaps and options are appropriate interest rate management tools that can help the City meet important financial objectives. Properly used, these instruments can increase the City's financial flexibility, provide opportunities for interest rate savings or enhanced investment yields, and help the City manage its balance sheet through better matching of assets and liabilities. Swaps should be integrated into the City's overall debt and investment management guidelines and should not be used for speculation.

Swaps are appropriate to use when they achieve a specific objective consistent with the City's overall financial strategies. Swaps may be used, for example, to lock-in a current market fixed rate or create additional variable rate exposure. Swaps may be used to produce interest rate savings, to alter the pattern of debt service payments, or for asset/liability matching purposes. Swaps may be used to cap, limit or hedge variable rate payments. Options granting the right to commence or cancel an underlying swap may be used to the extent the swap itself is consistent with these guidelines or the City determines there are other advantages to be derived in granting the option; however, the City must determine if the use of any such option is appropriate and warranted given the potential benefit, risks, and objectives of the City. The City's staff, together with its Bond Counsel and its Financial Advisor, periodically shall review the City's swap guidelines and recommend appropriate changes.

In connection with the use of any swaps, the City Council shall make a finding that, per Government Code Section 5922, the applicable swap is designed to reduce the amount or duration of the interest rate risk or result in a lower cost of borrowing when used in combination with the issuance or carrying of the Bonds or enhance the relationship between the risk and return with respect to the City's investments or program of investment, as applicable.

### ***Rationales for Utilizing Interest Rate Swaps and Options***

- A. Optimize capital structure; including schedule of debt service payments and/or fixed vs. variable rate allocations
- B. Achieve appropriate asset/liability match
- C. Reduce risk, including:
  - 1. Interest rate risk;
  - 2. Tax risk; or
  - 3. Liquidity renewal risk
- D. Provide greater financial flexibility
- E. Generate interest rate savings
- F. Enhance investment yields
- G. Manage exposure to changing markets in advance of anticipated bond issuances (through the use of anticipatory hedging instruments)

### **III. PERMITTED INSTRUMENTS**

The City may utilize the following financial products on a current or forward basis, after identifying the objective(s) to be realized and assessing the attendant risks.

- A. Interest rate swaps, including fixed, floating and/or basis swaps; and
- B. Options, including swaptions, caps, floors, collars and/or cancellation or index-based features

### **IV. PROCEDURE FOR SUBMISSION AND EXECUTION**

Unsolicited proposals are to be mailed to the Chief Financial Officer and the Financial Advisor for evaluation. Such unsolicited proposals need to be received four weeks prior to the next City Council meeting for consideration at such meeting. For proposals received within four weeks of the next City Council meeting, the City reserves the right to consider the proposal at the following month's Council meeting.

Legal costs incurred in connection with an unsolicited proposal shall be paid by the firm submitting the proposal if for whatever reason the proposal does not close or should the City elect for any reason not to proceed. If the City elects to proceed with the

proposed transaction and the proposed transaction closes, the City will absorb such legal costs through costs of issuance.

The City staff and the Financial Advisor shall review all unsolicited proposals prior to presentation to the City Council. The City shall only present proposals to the Council that the City, in its sole discretion, believes should be considered further given, for example, the projected savings or other benefits and the ability to meet one or more of the objectives outlined herein. Only proposals that meet the savings guidelines (as described in the “Guidelines for Financing and Selection of the Financing Team”) or that the City staff find compelling for other reasons, shall be presented.

### ***Procurement and Execution***

The City will not have a fixed guideline with respect to swap procurement. The City will assess the benefits of competitively bidding financial products that are non-proprietary or generally available in the marketplace. On a product-by-product basis, the City will have the authority to negotiate the procurement of financial instruments that have customized or specific attributes designed on the City’s behalf.

The use of financial derivative products will be recommended if they meet one of the benefits outlined herein or if they:

- A. Provide a specific benefit not otherwise available;
- B. Produce greater expected interest rate savings or incremental yield than cash market alternatives;
- C. Are not speculative or do not create unreasonable leverage or risk;
- D. Result in an improved capital structure or better asset/liability match; or
- E. Reasonably pass the risk evaluation required by these guidelines

### ***Conformance with Dodd-Frank***

It is the intent of the City to conform this policy to the requirements relating to legislation and regulations for over-the-counter derivatives transactions under Title VII of the Wall Street Transparency and Accountability Act of 2010, as supplemented and amended from time to time (herein collectively referred to as “Dodd-Frank”). Pursuant to such intent, it is the policy of the City that: (i) each swap advisor engaged or to be engaged by the City will function as the designated qualified investment representative of the City, sometimes referred to as the “Designated QIR”; (ii) each swap advisor agrees to meet and meets the requirements specified in Commodity Futures Trading

Commission Regulation 23.450(b)(1) or any successor regulation thereto (herein referred to as the “Representative Regulation”); (iii) each swap advisor provide a written certification to the City to the effect that such swap advisor agrees to meet and meets the requirements specified in the Representative Regulation; (iv) the City monitor the performance of each swap advisor consistent with the requirements specified in the Representative Regulation; (v) the City exercise independent judgment in consultation with its swap advisor in evaluating all recommendations, if any, presented by any counterparty with respect to transactions authorized pursuant to this Debt Policy; and (vi) the City rely on the advice of its swap advisor with respect to transactions authorized pursuant to this Debt Policy and not rely on recommendations, if any, presented by any counterparty with respect to transactions authorized pursuant to this Debt Policy.

### ***Counter-Party Risk Assessment***

The City will only do business with highly rated counter parties or counter parties whose obligations are supported by highly rated parties. The City will structure swap agreements to protect itself from credit deterioration of counter parties, including the use of credit support annexes or other forms of credit enhancement to secure counterparty performance. Such protection shall include any terms and conditions which in the City’s sole discretion are necessary or appropriate or in the City’s best interest.

The City shall enter into interest rate swap transactions only with qualified swap counterparties. Qualified swap counterparties are investment banks and will be identified by the Financial Advisor. Qualified swap counterparties should be rated at least “Aa3” or “AA-” by one of the nationally recognized rating agencies (i.e. Moody’s, Standard and Poor’s, and Fitch) and not rated lower than “A2” or “A” by any nationally recognized rating agency. In addition, the counterparty must have a demonstrated record of successfully executing swap transactions as well as creating and implementing innovative ideas in the swap market. Each counterparty shall have minimum capitalization of at least \$150 million.

The City should not have an immutable credit standard. However, the City will attempt to do business with highly rated counter parties of “Aa3” or “AA-” or better. For lower rated (below “Aa3” or “AA-”) counter parties, the City should seek credit enhancement in the form of:

- A. Contingent credit support or enhancement; or
- B. Collateral consistent with the policies contained herein

## V. SWAP ANALYSIS AND PARTICIPANT REQUIREMENTS

In connection with any swap, the City and its Financial Advisor shall review the proposed transaction and outline any considerations associated with the transaction to the City Council. Such a review should include the following:

- A. The identification of the proposed benefit and potential risks, which shall include, but not necessarily be limited to, those risks outlined herein
- B. Independent analysis of potential savings from a proposed transaction
- C. Fixed versus variable rate and swap exposure before and after the proposed transaction
- D. Market Net Termination Exposure (as outlined herein) for all existing and proposed transactions at the City

### ***Swap Risks***

- A. Counterparty Risk – The risk of a payment default on a swap by an issuer’s counterparty
- B. Termination Risk - The risk that a swap has a negative value, and the issuer owes a “breakage” fee if the contract has to be liquidated
- C. Tax Risk – A mismatch between changes in the rate or price on an issuer’s underlying bonds and the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut, which results in an increase in the ratio of tax-exempt to taxable yields
- D. Basis Risk – A mismatch between the rate on an issuer’s underlying bonds and the rate paid under the swap, e.g. a tax-exempt variable rate issue which trades at 62% of LIBOR while the issuer only receives 60% of LIBOR under the swap
- E. Tax Exemption Risk – The risk that the transaction may make the issuer’s related bonds taxable
- F. Liquidity/Remarketing Risk – The risk that an issuer cannot secure a cost-effective renewal of a Letter or Line of Credit or suffers a failed auction or remarketing with respect to its variable-rate bonds

### ***Benefit Expectation***

Financial transactions, using fixed rate swaps or other derivative products, should generate 2% greater projected savings than the savings guidelines (as described in the “Guidelines for Financing and Selection of the Financing Team”) then in effect for traditional bonds. This threshold will serve as a guideline and will not apply should the transaction, in the City’s sole judgment, help to meet any of the objectives outlined herein. The higher savings target reflects the greater complexity and higher risk of derivative financial instruments. At a minimum, such financial transactions should provide savings of no less than 5% over refunded par regardless of the spread between the financial transaction and a traditional bond refunding.

For example, assuming a refunding of \$100 million of existing bonds, a traditional fixed rate advance refunding that does not use derivative products would have a present value savings threshold of \$5 million, which is 5% of the refunded par. If the refunding structure utilizes a derivative product, the threshold would be \$7 million in present value savings, 7% of the refunded par. Therefore, the transaction utilizing a swap or other derivative product would have to generate an additional \$2 million to meet the target.

For variable rate or other swap transactions that do not result in a fixed interest rate, the City will evaluate any additional value generated through the transaction in assessing the benefits of proceeding, including the ability to meet the objectives outlined herein. These benefits include, for example, reducing interest rate or tax risk, optimizing the capital structure or further reducing interest expense.

In determining any benefit in implementing a fixed-to-variable swap, the cost of remarketing, in addition to the cost of credit enhancement or liquidity fees must be added to the projected variable rate. Such a calculation should consider the trading performance of comparable bonds and any trading premium resulting from a specific form of credit enhancement or liquidity and/or any impact related to broader industry trends.

## **VI. LEGAL AND CONTRACTUAL REQUIREMENTS**

Unless otherwise approved by Council, the City will use standard ISDA swap documentation including the Schedule to the Master Agreement and a Credit Support Annex. The City may use additional documentation if the product is proprietary or the City deems in its sole discretion that such documentation is otherwise in its interest.

### ***Terms and Notional Amount of Swap Agreement***

The City shall determine the appropriate term for an interest rate swap agreement on a case-by-case basis. In connection with the issuance or carrying of bonds, the term of the swap agreement between the City and a qualified swap counterparty shall not extend beyond the final maturity date of existing debt of the City on the related Project, or in the case of a refunding transaction, beyond the final maturity of the refunding bonds. For purposes of calculating net exposure, credit shall be given to any fixed versus variable rate swaps that offset termination exposure for a specific Project or bond transaction. For variable rate transactions, credit may also be given for any assets that are used to hedge a transaction as long as in the City's judgment such assets are reasonably expected to remain in place on a coterminous basis with the swap.

Terms and conditions of any swap shall be negotiated by the City in the best interests of the City subject to the provisions of the California Government Code and, unless otherwise waived or altered by the City, these guidelines. The swaps between the City and each counterparty shall include, as appropriate, payment, term, security, collateral, default, remedy, termination, and other terms, conditions and provisions as the City, in consultation with its Bond Counsel and Financial Advisor, deems necessary or desirable.

Subject to the provisions contained herein, the City swap documentation and terms should include the following:

- A. Downgrade provisions triggering termination shall in no event be worse than those affecting the counterparty
- B. Governing law for swaps will be New York law, but should reflect California authorization provisions
- C. The specified indebtedness related to credit events in any swap agreement should be narrowly drafted and refer only to specific project debt
- D. Collateral thresholds should be set on a sliding scale reflective of credit ratings (see Collateral below)
- E. Eligible collateral as set forth in the Collateral section below.
- F. Termination value should be set by "market quotation" methodology, when the City deems appropriate
- G. The City should only agree to an Additional Termination Event for the City to the extent that the ratings on the applicable City bonds fall below a ratings trigger

acceptable to the City and the counterparty and no form of credit support or enhancement is in place

### ***Termination Provision***

All swap transactions shall contain provisions granting the City the right to optionally terminate a swap agreement at any time over the term of the agreement. Such a provision shall be required even if any termination is at market. In general, exercising the right to terminate an agreement should produce a benefit to the City, either through the receipt of a payment from a termination or, if the termination payment is made by the City, in conjunction with a conversion to a more beneficial (desirable) debt obligation of the City.

### ***Collateral***

As part of any swap agreement, the City shall require collateralization or other forms of credit enhancements to secure any or all swap payment obligations. As appropriate, the City, in consultation with its Bond Counsel and Financial Advisor, may require collateral or other credit enhancement to be posted by each swap counterparty under the following circumstances:

- A. Each counterparty to the City may be required to post collateral if the credit rating of the counterparty or parent falls below the “AAA” category. Additional collateral for further decreases in credit ratings of each counterparty shall be posted by each counterparty in accordance with the provisions contained in the collateral support agreement to each counterparty with the City the City. Maximum un-collateralized exposure for: (i) “AAA” rated counter parties is \$40 million; (ii) “AA” rated counter parties is \$10 million; and (iii) below “AA” category, uncollateralized exposure is zero
- B. Threshold amounts shall be determined by the City on a case-by-case basis. The City will determine the reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter
- C. Collateral shall be deposited with a third-party trustee, or as mutually agreed upon between the City and the counterparty
- D. A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the swap agreement with each swap counterparty. A complete list of acceptable securities and valuation percentages are included as Attachment A

- E. The market value of the collateral shall be determined on at least a monthly basis, or more frequently if the City determines it is in the City's best interest given the specific collateral security
- F. It shall be determined on a case-by-case basis whether other forms of credit enhancement are more beneficial to the City

## VII. LIMITATIONS ON TERMINATION EXPOSURE

In order to diversify the City's counterparty credit risk, and to limit the City's credit exposure to any one counterparty, limits will be established for each counterparty based upon both the credit rating of the counterparty as well as the relative level of risk associated with each existing and projected swap transaction. The guidelines below provide general termination exposure guidelines with respect to whether the City should enter into an additional transaction with an existing counterparty. The City Council may make exceptions to the guidelines at any time to the extent that the execution of a swap achieves one or many of the goals outlined in these guidelines or provides other benefits to the City.

Such guidelines will also not mandate or otherwise force automatic termination by the City or the counterparty. Maximum Net Termination Exposure is not intended to impose retroactively any terms and conditions on existing transactions. Such provisions will only act as guidelines in making a determination as to whether or not a proposed transaction should be executed given certain levels of existing and projected net termination exposure to a specific counterparty. Additionally, the guidelines below are not intended to require retroactively additional collateral posting for existing transactions. Collateral posting guidelines are described in the "Collateral" section above. The calculation of net termination exposure per counterparty will take into consideration multiple transactions, some of which may offset the overall exposure to the City.

Maximum Net Termination Exposure will be based on the sum of (i) the market value of existing transactions as of the first day of the month prior to the execution of any new transaction plus (ii) the expected worse case termination value of the new transaction. The maximum termination exposure will also be tied to the credit rating of a counterparty and whether or not the counterparty has posted collateral against this exposure.

Under this approach, the City will set limits on individual counterparty exposure based on existing as well as new or proposed transactions. For existing transactions, exposure will be based on the market value as of the last quarterly swap valuation report provided by the Financial Advisor. For a new or proposed transaction, the City will calculate the projected maximum exposure based on the estimated maximum exposure assuming two standard deviations. Standard deviation is a statistic obtained by squaring

the average difference from the mean of a distribution of numbers. Two standard deviations capture 95% of the population of a distribution of numbers. For purposes of the calculation, two standard deviations shall be calculated as the annualized standard deviation of weekly swap rates over the preceding 52 weeks. The time period may vary according to market conditions, which could range from flat to volatile.

The sum of the existing market value and the projected maximum exposure shall constitute the Maximum Net Termination Exposure. For purposes of this calculation, the City shall include all existing and projected transactions of an individual counterparty and all transactions will be analyzed in aggregate such that the maximum exposure will be additive and netted on a per project basis. The rationale behind aggregating and netting on a Project basis is that the exposure will vary for individual members depending on their participation in different projects.

For example, if the City has \$13 million (i.e. the City would owe termination payment) of exposure to a counterparty, the Maximum Net Termination Exposure under the definition above, is the projected maximum termination exposure less the outstanding exposure. If projected maximum termination exposure on the proposed transaction, assuming two standard deviations, is \$20 million, net termination exposure would be \$7 million.

The exposure thresholds, which will be reviewed periodically to ensure that they remain appropriate, will also be tied to credit ratings of the counter parties and whether or not collateral has been posted. If collateral has been posted, the City cannot exceed \$30.0 million of collateralized exposure. In addition, there would be a further limit on the amount of uncollateralized exposure, including any threshold amounts under the Credit Support Annex. For AAA-rated counter parties, the City could have up to \$40.0 million of uncollateralized exposure; for counter parties in the AA category, the City could have up to \$10.0 million of uncollateralized exposure and for counter parties below the AA category, the City could have no uncollateralized exposure. If a counterparty has more than one rating, the lowest rating will govern for purposes of calculating the level of exposure. A summary table is provided below.

<b>Credit Ratings</b>	<b>Maximum Collateralized Exposure</b>	<b>Maximum Uncollateralized Exposure</b>	<b>Maximum Total Termination Exposure</b>
AAA	NA	\$40 million	\$40 million
AA Category	\$30 million	\$10 million	\$40 million
Below AA	\$30 million	None	\$30 million

Assuming the same example as above, if the counterparty is currently rated “Aa2” and “AA+,” the exposure thresholds would only take effect if Net Termination Exposure increased an additional \$3 million (from the original \$7 million above).

If the exposure limit is exceeded by a counterparty, the City shall conduct a review of the exposure limit per counterparty. The City, in consultation with its Bond Counsel and Financial Advisor, shall explore remedial strategies to mitigate this exposure.

#### VIII. ONGOING MANAGEMENT

The City will seek to maximize the benefits and minimize the risks it carries by actively managing its swap program. This will entail frequent monitoring of market conditions, by both the Financial Advisor and swap counterparty, for emergent opportunities and risks. Active management may require modifications of existing positions including, for example:

- A. Early termination;
- B. Shortening or lengthening the term;
- C. Sale or purchase of options; or
- D. Use of basis swaps.

On an overall basis, the City's swap program is not expected to be very large relative to all of its investment and debt activities. Swaps will be used in response to particular market conditions and needs of the City for which swaps are the best investment or debt-management option.

#### IX. ONGOING REPORTING REQUIREMENTS

A written report providing the status of all interest rate swap agreements entered into by the City will be provided to the City Council on an annual basis (or other basis, if so directed by Council) and shall include the following:

- A. A description of all outstanding interest rate swap agreements, including project and bonds series, type of swap, rates paid and received by the City, total notional amount, average life of each swap agreement, remaining term of each swap agreement
- B. Highlights of all material changes to swap agreements or new swap agreements entered into by the City since the last report
- C. Termination exposure of each of the City's interest rate swap agreements
- D. The credit rating of each swap counterparty and credit enhancer insuring swap payments, if any

- E. If applicable, information concerning any default by a swap counterparty to the City, including but not limited to the financial impact to the City, if any
- F. If applicable, information concerning any default by the City to a swap counterparty
- G. A summary of swap agreements that were terminated or that have expired
- H. For a swap transaction entered into to generate debt service savings, the City will calculate on an annual basis the actual debt service requirements versus the projected debt service on the swap transaction at the original time of execution. Such a calculation shall include a determination of the cumulative actual savings (or, if applicable, additional payments made by the City) versus the projected savings at the time the swap was executed.

**Attachment A – Acceptable Collateral**

Security	Valuation Percentage
Cash	100%
Negotiable debt obligations issued by the U.S. Treasury Department or the Government National Mortgage Association (“Ginnie Mae”), or (y) mortgage backed securities issued by Ginnie Mae (but with respect to either (x) or (y) excluding interest only or principal only stripped securities, securities representing residual interests in mortgage pools, or securities that are not listed on a national securities exchange or regularly quoted in a national quotation service) and in each case having a remaining maturity of: (i) less than one year (ii) one year or greater but less than 10 years (iii) 10 years or greater	100% 98% 95%
Negotiable debt obligations issued by the Federal Home Loan Mortgage Corporation (“Freddie Mac”) or the Federal Home Loan Mortgage Association (“Fannie Mae”) or (y) mortgage-backed securities issued by Freddie Mac or Fannie Mae but excluding interest only or principal only stripped securities, securities representing residual interests in mortgage pools, or securities that are not listed on a national securities exchange or regularly quoted in a national quotation service	95%
Any other collateral acceptable to the City in its sole discretion. The valuation percentage shall be determined by the Valuation Agent from time to time and in its reasonable discretion	The valuation percentage shall be determined by the Valuation Agent from time to time and in its reasonable discretion.

For example, if a counterparty is required to post \$1 million of collateral and wished to use bonds issued by Ginnie Mae with five years remaining to maturity, it would be required to post \$1,020,409 (\$1 million/0.98) to satisfy the collateral requirement.

# City of Roseville Budget Development Policy

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## I. INTRODUCTION

This policy outlines the City of Roseville's (City) guidelines for budget development. Consistently following adopted policies will assist the City in achieving its current and future goals in a fiscally responsible and sustainable manner. This policy establishes guidelines for developing the City's annual operating and capital budget as recommended by the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting (NACSLB). This document shall be reviewed on an annual basis to reflect the highest standards of fiscal management and the City's budgetary goals.

## II. POLICY

### A. Citywide Focus

Consistent with the General Principles of Governance adopted by the City Council in the Elections Ordinance, the City shall maintain a citywide focus during the budget development process and in the adopted budget. Revenues and expenditures shall be budgeted on a citywide basis and not tracked by Council district.

### B. General Revenues

General revenues shall be deposited in the General Fund and appropriated during the budget process or by a separate Council action. General Fund revenues shall not be earmarked for any particular purpose, unless required by law or Generally Accepted Accounting Principles (GAAP).

### C. Balanced Budget

The City shall adopt and maintain a balanced annual operating budget and an integrated capital budget throughout the fiscal year. For each fund, annual expenditures shall not exceed annual revenues plus available fund balances. It shall remain a goal of the City to maintain a long-term structurally balanced budget, where ongoing revenues support ongoing expenditures.

The City will achieve a structurally balanced budget through efficiencies (i.e., streamlining), permanent reductions to the expenditure base (e.g., eliminating lower priority vacant positions and reducing service levels), and ongoing revenue enhancements. In addition, the City's budget will not rely on reserves or the use of one-time revenues for ongoing expenditures.

D. Public Involvement

Public involvement shall be encouraged in the annual budget decision-making process through public hearings, public outreach, and the dissemination of accessible information. Public participation efforts allow the City to improve performance by identifying general needs, priorities, and service delivery expectations. Public involvement enables the City to be more responsive to the community's needs, thereby increasing the value that the public receives from the City.

E. Operating Budget

The operating budget document shall contain the expected revenue and expenditure appropriations, staffing levels, and summaries for each department. Summary information for each department featured in the budget shall include the primary services, strategic goals and strategies, accomplishments and initiatives, and key performance and workload measures. Department summaries shall be updated annually to illustrate how each department's priorities and performance measures support the City Council's Strategic Plan.

F. Capital Improvement Program (CIP) and Budget

The City shall develop a Five-Year CIP, which reflects a comprehensive approach to addressing the City's capital needs and the identification of resources for those needs. Critical inputs include infrastructure condition assessments, service level evaluations, asset management information, and review of available funding sources. The Five-Year CIP shall be the basis for the development of the annual CIP budget.

The annual CIP budget shall be developed in conjunction with the operating budget to ensure the effective utilization of the City's overall resources to operate and maintain facilities. The annual CIP budget shall include projects that span multiple fiscal years and result in capitalized assets. The CIP budget may consist of other projects of a capital nature that may not result in an asset and that span multiple fiscal years and have significant cost estimates.

The annual CIP budget shall reflect total estimated project costs for Council approved projects by including all historical expenditures, available appropriations, and future funding needs. CIP projects shall only be established with partial funding if there is a reasonable expectation that the remaining funding will be identified within a reasonable timeframe.

CIP appropriations remaining unspent at the end of each fiscal year shall be carried forward to the subsequent fiscal year until the project is completed or cancelled. CIP projects, however, shall be reviewed at least annually to identify projects that are not progressing to consider reprogramming project resources.

G. Indirect Cost Allocation Plan

The City shall use an indirect cost allocation plan (CAP) to allocate the costs of those general government activities without significant assets or liabilities to all City funds and departments, except those between General Fund departments. General government activities include City Council, City Manager, City Attorney, City Clerk, Finance, Human Resources, Public Affairs and Communications, and Economic Development. Substantial changes in the allocable indirect costs may be amortized or smoothed over a period not to exceed three fiscal years to allow receiving funds to adjust their rates. At the end of the maximum three-year smoothing period, any remaining difference between the total indirect costs and the allocated indirect costs shall be paid in full in the fiscal year immediately following the smoothing period.

The CAP is also used to allocate indirect costs in Public Works Administration and Engineering and Parks, Recreation and Library Administration to their departmental divisions they support.

H. Indirect Costs Charged to Projects

The City shall use indirect cost rates to allocate the costs of overhead to all multi-year capital improvement projects for proper asset capitalization. Exceptions, other than federal or state grants that don't allow indirect costs, must be approved by the Finance Department.

I. Internal Service Funds

The City shall use internal service funds to allocate general government costs for activities with significant assets and/or liabilities to all City funds and departments. Internal service fund costs are budgeted in and allocated to General Fund departments. The City's internal service fund activities include information technology, fleet management, facilities management, and risk management (general liability and workers compensation).

J. General Fund Five-Year Forecast

The City shall maintain a five-year forecast for the General Fund as an essential fiscal planning tool. The forecast shall be based on the current budget and

projections of future expenditures, revenues, and other funding sources over a multi-year period. The evaluation of recommended fiscal actions will focus on a longer-term, rather than short-term context. The five-year forecast is based on a set of point-in-time assumptions. The projected expenditure growth shall be realistic, mainly through the term of the current labor contracts. All revenue forecasts will utilize objective external research and internal forecasting methods. City revenues are economically sensitive, and the five-year revenue forecasts are subject to the same uncertainty and downside risk surrounding national economic forecasts. It is important to note that the City's significant tax revenues, property and sales taxes, trail economic trends.

K. Basis of Budgeting

The City's budgets for governmental funds, such as the General Fund, special revenue funds, debt service funds, and capital project funds, shall be prepared based on the modified accrual basis of accounting. In other words, revenues are recognized in the accounting period in which they become available and measurable, and expenditures are recognized in the accounting period in which the liability is incurred. An exception to this basis is that disbursements of interfund loans are budgeted as expenditures in lender funds and revenue in borrower funds, and repayments of interfund loans are budgeted as expenditures in borrower funds and revenue in lender funds.

The budget for the City's proprietary funds, consisting of enterprise funds and internal service funds, shall be prepared on the full accrual basis of accounting for all operating revenues and most operating expenses. In other words, revenues are recognized when they are earned, and expenses are recognized when the liability is incurred. Expenses related to long-term assets, primarily capital outlay, and long-term liabilities, including repayment of bonded debt as well as pension and other post-employment benefit expenses, are budgeted on the modified accrual basis of accounting. Repayments of interfund loans are budgeted as expenditures in borrower funds and revenue in lender funds.

The City's budget shall exclude unrealized gains or losses resulting from the change in fair value of investments, as well as amortization of premiums and discounts on the City's investments. These calculations are performed solely for financial statement reporting purposes to comply with GAAP.

# City of Roseville General Fund Reserves Policy

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## I. INTRODUCTION

The purpose of this policy is to establish targeted levels of General Fund reserves, a basic component of a financially strong city. Adequate reserves help sustain City operations when adverse or unexpected circumstances affect the City, providing resources to minimize service disruption in the event of temporary revenue shortfalls, declared disasters, or unpredicted one-time expenditures. This policy establishes the amounts the City will strive to maintain in the Emergency Reserve, Stabilization Reserve, and Litigation Reserve, and the conditions under which the reserves may be used.

## II. BACKGROUND

Financial reserves strengthen the City's financial status and provide valuable resources for managing through economic cycles and addressing unexpected events. Every fund of the City represents a stand-alone financial set of accounts and has its own operating characteristics, financial capabilities, and constraints. The level of reserves needed should be based on the financial and operating characteristics of each fund.

According to the Government Finance Officers Association (GFOA), it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) in order to protect taxpayers and employees from unexpected changes in financial conditions. GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain an unrestricted budgetary fund balance in their General Fund of no less than two months of regular general fund operating revenues or regular General Fund operating expenditures (an amount equivalent to 16.67% of the annual budget).

This policy establishes three months of operating costs (25% of annual budgeted General Fund operating costs) as the City's target level of reserves. This targeted level of reserves consists of the City's Emergency Reserve (10% of annual budgeted General Fund operating costs) and the City's Stabilization Reserve (15% of annual budgeted General Fund operating costs). This policy also establishes \$250,000 as the minimum level in the City's Litigation Reserve. The policy also outlines the methods the City will utilize to achieve the target reserve levels, defines the conditions under which these funds can be used and describes how the City's expenditure and/or revenue levels will be adjusted to match any new economic realities that are causing the use of fund balance reserves as a financing bridge.

### III. POLICY

#### A. Minimum and Target Reserve Levels

The City will maintain an Emergency Reserve at a minimum of 10% of budgeted General Fund operating expenditures. Because the City relies on property tax and sales tax revenue to support over two-thirds of the City's General Fund budget and the negative effects on property and sales tax revenue can be significant during economic downturns, the City will seek to build up and maintain a General Fund Stabilization Reserve equal to 15% of budgeted General Fund operating expenditures as the target reserve level. The Emergency Reserve and Stabilization Reserve shall be reported as commitments of fund balance in the General Fund for external financial reporting. Appropriations from the Emergency Reserve may only be made by a vote of the City Council to meet a critical, unpredictable financial need such as a declared emergency. Appropriations from the Stabilization Reserve may only be made by a vote of the City Council in the event of temporary revenue shortfalls caused by an economic downturn.

#### B. Methods to Achieve Funding Levels

Funding of the General Fund Reserves will generally come from the adopted budget, year-end excess revenues over expenditures or anticipated one-time revenues. At a minimum, during the budget process, staff shall review the current and five-year projected reserves to ensure that they are appropriate given the economic and financial risk factors the City faces.

#### C. Criteria for Expenditure of Reserve Funds

The Reserve Funds shall not normally be applied to recurring annual operating expenditures. Appropriation from the Emergency Reserve and Stabilization Reserve Funds requires approval of at least four City Council members. The Litigation Reserve is appropriated annually in the adopted budget.

##### 1. Emergency Reserve

The Emergency Reserve may be used to contend with significant short-term issues such as declared emergencies. It is the intent of the Council to limit use of the Emergency Reserve to addressing unanticipated, nonrecurring needs.

2. Stabilization Reserve

The Stabilization Reserve may be used strategically to allow time for the City to restructure its operation in a deliberate manner as required in an economic downturn while minimizing service disruption. Use of the Stabilization Reserve will only take place in the context of a Council-adopted long-term plan. The Stabilization Reserve is intended to be used to address significant revenue shortfalls that occur during an economic downturn until the City's operating expenditure and revenue levels are adjusted to eliminate structural deficits.

3. Litigation Reserve

The Litigation Reserve may be used for legal matters that are unforeseen and/or unusual in nature and, as a result, typically require reactive measures such as seeking a budget adjustment and a funding source. Some examples are contract disputes, municipal code enforcement, and other public safety enforcement matters. The purpose of this reserve is to address these situations by allowing for proactive handling and funding of such matters.

D. Timeline for Replenishment of the General Fund Reserves

If the General Fund Reserves are drawn down below the minimum levels, a plan will be developed and implemented to replenish the reserves. Replenishing the reserves will be a priority use of one-time resources. Generally, the City should seek to replenish the Emergency Reserve and the Litigation Reserve within one year and the Stabilization Reserve to the minimum reserve level within three years.

**City of Roseville**  
**Development Services Stabilization Reserve (DSSR)**  
**Fund Policy**

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## I. PURPOSE

The purpose of the Development Services Stabilization Reserve (DSSR) Fund (Fund #1013) Policy is to maintain resources in a reserve fund that the City Council may draw from in years of lower development activity. The City will use the DSSR to bridge gaps between budgeted and actual development revenues during periods of significant revenue decline.

## II. BACKGROUND

A sustainable funding plan for the Development Services Department's building, planning, and engineering operations is necessary to respond to changes in the economic climate. Establishing a DSSR Fund will provide the department resources during a downturn in development-related activity and time to react to those changes.

## III. POLICY

The DSSR shall be established as set forth below, and any changes to the policy will be recommended to the City Council for approval.

- A. The DSSR target goal is equivalent to six months of estimated building, planning and engineering revenues.
- B. Actual year-end General Fund revenues in excess of budget from select accounts in Development Service's Building, Planning and Engineering operations will be transferred to the DSSR, provided that the net year-end General Fund results (revenue and expenditure budget variance) of the Development Services Department are positive and the reserve is below the target goal.
- C. If, at year-end, the amount in reserve exceeds the six-month estimate for the current fiscal year, the City Manager can transfer the excess amount to the General Fund or maintain reserve levels above the six-month estimate if revenues are anticipated to grow in the future fiscal year.
- D. The year-end calculation will occur each year in the summer following the fiscal year end (June 30). The six-month revenue estimate will be based on the current year's budget. For example, the year-end calculation for FY2023-24 will occur in summer 2024, and the six-month revenue estimate calculation will be based on the FY2024-25 budget.
- E. The City will only use the DSSR to bridge gaps between projected and actual development-related revenues in Development Services during periods of significant revenue shortfalls. The reserve will help the department maintain

services during a short-term drop in revenue and will provide time to react to changes necessary during a long-term economic decline.

- F. Appropriation from the DSSR Fund requires approval of at least four City Council members.

**City of Roseville**  
**Federal Stimulus Reserve Fund Policy**

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## I. PURPOSE

The purpose of this policy is to establish a temporary Federal Stimulus Reserve Fund with the City's allocation of the federal stimulus (2021 Coronavirus State and Local Fiscal Recovery Funds) until one-time expenditures or transfers to other City funds are approved over the remaining course of the pandemic.

The City was required to obligate the federal stimulus funding by December 31, 2024. This temporary reserve fund will be closed after all funding, including interest earned thereon, has been distributed.

Staff will recommend one-time expenditures, or transfers to other City funds, for Council approval consistent with the requirement for the use of the funds to:

- A. respond to or mitigate the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) or its negative economic impacts;
- B. cover otherwise unreimbursed costs incurred as a result of such emergency;
- C. replace revenue that was lost, delayed, or decreased as a result of such emergency; or
- D. address the negative economic impacts of such emergency.

The federal stimulus funding shall not be applied to new ongoing operating expenditures.

**City of Roseville**  
**Internal Service Funds - Operating and Replacement Reserves**  
**Policy**

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## I. PURPOSE

As separate budget and accounting entities, internal service funds (ISFs) need to manage cash reserves within their funds. The purpose of cash reserves in the ISFs is two-fold:

- Operating Reserves - To provide for continuity of service in the event of unanticipated changes to revenues or expenditures, particularly within a single fiscal year when charges for service on client operating departments already have been fixed through the adopted budget.
- Replacement Reserves - To provide funding for capital improvement, rehabilitation, and replacement of capital assets managed, whose useful lives span multiple fiscal years and whose costs yield a burdensome or unaffordable peak in expenditure if assessed on client operating departments as they occur.

In the ISFs, the accumulation and expenditure of reserve balances, including the establishment of targeted reserve levels, shall be as follows.

## II. POLICY

### A. Operating Reserves

#### 1. Applicability

The following ISFs manage ongoing operations and therefore would benefit from the establishment of an operating reserve:

- Fleet Services
- Facility Services
- Information Technology Operations

Because ISFs do not function within a traditional retail environment, their revenues are not a material factor in the underlying risk to its financial sufficiency. An operating reserve incorporating the effects of billing cycles and collection rates is not applicable. Therefore, the operating reserve shall be established based singularly on a cushion for unforeseen change to critical cost drivers.

#### 2. Targeted Reserve Level

An operating reserve equal to 5-15 percent of annual operating expenditures is appropriate among these service types. Fleet Services and Facility Services will target a 10-15 percent operating reserve level, and Information Technology Operations will target a 5-10 percent operating

reserve level. The fund balance of each ISF will serve as its operating reserve. For purposes of calculating the reserve target, operating expenditures include labor expenses and materials, services, and supplies expenses in the fund. As a metric for calculating a reserve level, operating expenditures should not include capital outlay, debt service, or transfers to other funds.

### 3. Initial Establishment of the Reserve

The available cash balance in the ISF may be used immediately to establish the operating reserve to its minimum level. If the minimum level is not feasible with existing cash, staff will develop a plan to begin adjusting the charges for service to begin funding the reserve, as described in the following paragraph.

### 4. Annual Funding of the Reserve

When the reserve is at its minimum level, there is no need to assess client operating departments for additional reserve funding in their annual charge for service. The reserve exists until it is used and falls below its minimum threshold, as designed.

When the operating reserve falls below its minimum level, a plan for replenishing the reserve shall be established as part of the next fiscal year's annual rate calculation process. Under staff discretion at that time, options for replenishing the reserve may include:

- Immediate replenishment to the minimum level in one fiscal year, accomplished by an additional component to the annual charge for service, assessed on client operating departments in proportion to their total charge for services.
- Replenishment to the minimum level over multiple fiscal years, such as two or three, depending on fiscal conditions determined at that time. This moderated plan is also accomplished as an additional component to the annual charge for service assessed on client operating departments in proportion to their total charge for services.

## 5. Excess Reserves

When cash held in the fund exceeds the minimum operating reserve level, fund managers should determine appropriate uses to avoid over-accumulation and stranding of City resources, as part of the annual rate calculation process in the next fiscal year. Under staff discretion at that time, options for reducing excess reserves may include:

- Reduce client operating department charges for service on a one-time basis in proportion to their total charge for service. This option alternatively may be viewed as reducing the total cost pool driving charges for services by using reserves to fund planned operating expenditures in a single fiscal year.
- Fund previously deferred special projects associated with ISF operations, particularly those projects of broad benefit to all client operating departments.
- Transfer excess cash to the ISF's companion asset replacement/rehabilitation fund to reduce long-term deficiencies or accelerate funding for defined capital needs as allowed by accounting controls.

## B. Replacement Reserves

### 1. Applicability

The following ISFs manage capital assets and therefore would benefit from the establishment of a replacement reserve:

- Fleet Replacement
- Fleet Operations
- Equipment Replacement
- Facility Rehabilitation
- Information Technology Replacement

The replacement reserve shall be based on analysis of long-term scheduled capital improvement, rehabilitation, and replacement of capital assets and equipment managed by the ISF in order to sustain municipal services and prevent City assets' physical deterioration.

Replacement reserves are not typically managed to handle increases in assets and equipment in service. Funding for new or growth in assets and equipment will need to be identified as a special funding component for client operating departments, the general resources of the City, or the ISF outside of this replacement reserve structure.

## 2. Targeted Reserve Level

Replacement reserves are dynamic: They are continually added to and spent as assets are rehabilitated or replaced. These ISF's will not target a minimum cash balance but instead manage the reserve's annual funding to enable adequate resources when expenditures are scheduled or needed.

## 3. Initial Establishment of the Reserve

The available cash balance in these ISF's may be used immediately to establish the replacement reserve. These are the resources available to meet near-term scheduled expenditures and the resources being accumulated for expenditure later as assets require reinvestment or replacement. In ideal circumstances, the cash currently available equals the amount of resources needed along current replacement schedules for all assets in service. The reasonableness of this circumstance will differ depending on the ISF evaluated for one or more of several reasons, such as:

- Past charges for service did not include any funding or included insufficient annual funding for future replacement.
- Assets are routinely replaced beyond their scheduled lives, particularly when ongoing maintenance can extend in-service timelines without unmanageable costs or effort.
- Assets are ultimately replaced by another asset of entirely different cost structure, particularly in areas of more rapid technological change.
- The total value of future replacement needs may not be supportable by charges for service and will require identification of additional funding outside the ISF in the future.

Regardless of the initial reserve establishment's adequacy, charges for service in the next fiscal year should be set to continue funding the reserve on an annual basis, as described in the following paragraph.

#### 4. Annual Funding of the Reserve

The replacement reserve's underlying intention is to distribute the cost of asset replacement evenly over the life of the asset. Therefore, analysis by (individual or category of) asset is required to determine a total annual funding level. Steps for analyzing assets and determining their corresponding reserve funding component are as follows:

- **Original Cost Basis:** Record assets when placed in service. Assign an expected useful life. Calculate a straight-line annual depreciation amount based on the original cost. This value represents the minimum annual replacement reserve funding amount for assets expected to be replaced at the end of their life cycle.
- **Replacement Cost Basis:** Alternatively, record assets when placed in service. Assign an expected useful life. Project a replacement cost based on estimated cost inflation indices from original cost or a known replacement value. Calculate a straight-line depreciation amount based on estimated replacement cost, reducing for any material expected salvage value for fully depreciated assets. The resulting value represents the maximum annual reserve amount for assets expected to be replaced at the end of their life cycle.
- The method chosen – original cost or replacement cost basis – should be determined at staff discretion in each ISF. Factors influencing the choice of the method include impact to charges for service on client operating departments; external factors that substantially impact asset management between life cycles, such as rapid technological change; and magnitude of interest earnings in the replacement reserve contributing toward total resources available for asset replacement.

- The sum of annual funding amounts by asset (or asset category) represents the total annual reserve contribution to be collected through the ISF’s charges for service, dependent upon funding available for rehabilitation and replacement (See Capital Improvement Program Rehabilitation Funding Policy). This annual funding requirement should be allocated to the client operating departments based on the selected allocation metric for asset replacement in the ISF’s rate method, typically in proportion to the department’s use of the asset.

5. Excess Reserves

In the unlikely event that replacement reserves are found to exceed scheduled needs, as part of the annual rate calculation process in the next fiscal year, fund managers should determine appropriate uses to avoid over-accumulation and stranding of City resources. Under staff discretion at that time, options for reducing excess reserves may include:

- A planned, one-time reduction to service charges on client operating departments in proportion to their total charge for asset replacement-related services.
- Funding previously deferred special projects associated with asset management for the ISF, particularly those projects of broad benefit to all client operating departments.

**City of Roseville**  
**Capital Improvement Program Rehabilitation Funding Policy**

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## I. INTRODUCTION

The City has significant investments in facilities, equipment, park and recreation amenities and information technology (IT) hardware and software which require ongoing maintenance and eventual replacement. The CIP Rehabilitation funds, i.e., the Facility Rehabilitation Fund; the Equipment Replacement Fund, the Parks, Recreation and Library Capital Projects Fund; and the Information Technology Replacement Fund, are used to fund infrastructure needs for City buildings, equipment, park and recreation amenities and information technology capital replacement. In addition, the City maintains its significant investment in streets with external funding sources that are currently inadequate.

## II. BACKGROUND

The City maintains 10-Year Rehabilitation/Replacement plans for its General Fund assets used in service delivery. The 10-year plans reflect an annual General Fund funding requirement of over \$10 million, however the actual amount budgeted in FY2021-22 was \$3.2 million leaving an annual gap of approximately \$7 million.

The City performs an annual review of the 10-year plans to develop CIP Rehabilitation budget recommendations for the City Manager that includes a prioritized list of capital projects that can be recommended for funding or deferral in conjunction with the adoption of the City's CIP Rehabilitation budget.

The expectation is that the annual average demand will continue to trend upward based on projects being deferred and new replacement costs.

Addressing these infrastructure needs has been a stated priority of the City Council and was reaffirmed at the City Council priorities workshop meeting on February 22, 2022. As outlined at that workshop, the proposed budget for CIP Rehabilitation will be increased for FY2022-23 to include \$1.6 million of General Fund resources for street maintenance.

## III. POLICY

On an annual basis during each budget process, and until the annual required funding level is attained, the General Fund contribution to CIP Rehabilitation shall increase by \$1,000,000.

**City of Roseville  
Pension Funding Policy  
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## I. PURPOSE

The City's Pension Funding Policy documents the method the City will use to determine its actuarially determined contributions to fund the long-term cost of benefits to the plan participants and annuitants. The policy also:

- Provides guidance in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Reassures bond rating agencies; and
- Shows employees and the public how pensions will be funded.

## II. BACKGROUND

The City provides defined benefit retirement benefits through the California Public Employees' Retirement System (CalPERS). CalPERS is a multiple-employer public employee defined benefit pension plan.

All full-time and certain part-time City employees are eligible to participate in CalPERS. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute.

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to the plan participants. In order to assure that the plan is financially sustainable, the plan should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefitting employees. This funding policy outlines the method the City will utilize to determine its actuarially determined contributions to fund the long-term cost of benefits to the plan participants and annuitants.

*Pension Funding: A Guide for Elected Officials*, issued by eleven national groups including the U.S. Conference of Mayors, the International City/County Management Association, and the Government Finance Officers Association, established the following five general policy objectives for a pension funding policy:

- **Actuarially Determined Contributions.** A pension funding plan should be based upon an actuarially determined contribution (ADC) that incorporates both the cost of benefits in the current year and the amortization of the plan's unfunded actuarial accrued liability.

- Funding Discipline. A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.
- Intergenerational equity. Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of employee benefits is paid by the generation of taxpayers who receives services from those employees.
- Contributions as a stable percentage of payroll. Contributions should be managed so that employer costs remain consistent as a percentage of payroll over time.
- Accountability and transparency. Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

### III. POLICY

#### A. Actuarially Determine Contribution (ADC)

CalPERS actuaries will determine the City's ADC to CalPERS based on annual actuarial valuations. The ADC will include the normal cost for current service and amortization of any under-funded amount. The normal cost will be calculated using the entry age normal cost method using economic and non-economic assumptions approved by the CalPERS Board of Administration.

The City will review the CalPERS annual actuarial valuations to validate the completeness and accuracy of the member census data and the reasonableness of the actuarial assumptions.

#### B. Additional Discretionary Payment (ADP) Contribution

The City will consider making ADP contributions with one-time General Fund resources, with the objectives of increasing the plan's funded status, by reducing the unfunded actuarially accrued liability, and reducing ongoing pension costs.

#### C. Pension Reserve Trust Fund Contribution

The City will establish and consider making contributions to an Internal Revenue Code Section 115 Pension Trust, with the objective of setting aside extra resources for future pension contributions at reduced investment risk to help smooth volatility from year-to-year fluctuations in annual required contributions.

D. Transparency and Reporting

Funding of the City's pension plans should be transparent to vested parties including plan participants, annuitants, the City Council and Roseville residents. In order to achieve this transparency, the following information shall be available:

- Copies of the annual actuarial valuations for the City's CalPERS plans shall be made available to the City Council.
- The City's Annual Comprehensive Financial Report shall be published on its website. This report includes information on the City's annual contributions to the pension systems and their funded status.
- The City's annual operating budget shall include the City's contributions to CalPERS.

E. Review of Funding Policy

Funding a defined benefit pension plan requires a long-term horizon. As such, the City will review this policy at least every five years to determine if changes to this policy are needed to ensure adequate resources are being accumulated.

# City of Roseville Other Post-Employment Benefits (OPEB) Funding Policy

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## I. INTRODUCTION

The purpose of this Funding Policy is to state the overall funding goals for the City of Roseville OPEB Trust. The objective is to accumulate sufficient assets to fully finance the retiree healthcare benefits that the retired employees receive throughout retirement. In meeting this objective, the City will strive to meet the following funding goals:

- A. The City plans to continue to fund its Actuarially Determined Contribution (ADC).
- B. Nothing in this funding policy shall constitute an obligation upon the City, nor an implied contract. The City Council may revoke or amend this policy in the best interests of the City.
- C. Funding of the OPEB Trust does not change the City's obligation or intent to fully pay annual medical costs for retirees.

## II. BACKGROUND

The City of Roseville has provided a retiree health benefit to its employees for many years. As a cost reduction strategy, this benefit was eliminated for all bargaining unit employees classified as Tier III. Although eliminated for new employees, this benefit still remains in effect for many of the City's employees and must be addressed during the annual budget process. In an effort to address the long-term costs of this expense, a trust was created to accumulate funding for this benefit.

## III. POLICY

The City will engage an OPEB actuary to determine the City's ADC based on biennial actuarial valuations. The ADC will include the normal cost for current service and amortization of the under-funded liability. The normal cost is the current year cost of the program to provide the benefit for current employees in the future. The normal cost will be calculated using the entry age normal cost method using appropriate economic and non-economic assumptions approved by the City.

The City will review the actuarial valuations to validate the completeness and accuracy of the employee census data and the reasonableness of the actuarial assumptions. Actuarial valuations involve estimates and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The City will continue to appropriate the ADC in the annual budget for the pay-as-you-go costs of OPEB for current retirees and contributions to, or reimbursements from, the

OPEB Trust. In addition, a portion of any one-time monies remaining at the end of each fiscal year may be deposited into the trust, which amount will be determined by Council based on available funds and other priorities.

Funding OPEB requires a long-term horizon. The City will review this policy at a minimum biennially, coincident with preparation of the actuarial valuations, to determine if changes to this policy are necessary to ensure adequate resources are being accumulated to fund OPEB benefits.

**City of Roseville**  
**Workers' Compensation and General Liability Funding Policy**

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## I. INTRODUCTION

The Workers' Compensation and General Liability Funding Policy documents the City's approach to providing adequate financial resources to fund the City's Workers' Compensation and General Liability Programs and establishing and maintaining adequate reserves in the Workers' Compensation and General Liability Internal Service Funds.

## II. BACKGROUND

The City is self-insured for workers' compensation and for general liability. The Workers' Compensation and General Liability and Programs charge City departments and funds for the costs of providing for claims, as well as for the cost of administering the claims.

## III. POLICY

In order to methodically and consistently measure the City's projected claims, the City will contract with a professional outside actuary to prepare annual actuarial valuation reports for both categories of claims. Program funding will be based on the annual actuarial valuation reports.

The City's funding policy will provide program funding at the 75% confidence level, including recognition of anticipated investment income. Confidence level is used by actuaries to determine the realistic possibilities that a given funding rate will be sufficient to cover all claims that might be incurred in any one program year. A 75% confidence level indicates that the funding rate should be adequate 75% of the time.

If either program maintains a balance above the minimum funding requirement, the excess reserves will be used to subsidize City contributions over a 1-5 year period depending upon the amount of the excess and the City's economic condition.

If either program has excess claims requiring additional contributions to the fund, the City will increase contributions over a 1-3 year period depending on the amount of the shortfall and the City's economic condition to get to the minimum funding requirement.

# City of Roseville Interfund Loans Policy

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## I. PURPOSE

The City's Interfund Loan Policy documents the methods used by the City to demonstrate prudent financial management over interfund loans. The policy:

- Requires City Council approval of interfund loans, except for short-term working capital loans,
- Permits short-term interfund loans for working capital to cover Council-approved reimbursable grants and projects and other temporary timing differences in cash flows, and
- Prohibits interfund loans from being used to solve ongoing structural budget issues or hindering the accomplishment of any function or project for which the lending fund was established.

## II. BACKGROUND

Interfund loans are the lending of cash from one City fund to another for a specific purpose and with a requirement for repayment. The practice of interfund loans is a recognized and necessary aspect of municipal finance. Such loans are typically short-term in nature and constitute the allocation of resources between individual funds for working capital purposes.

## III. POLICY

### A. Long-term Loans

Interfund loans, other than short-term working capital loans, must be approved by the City Council. Council approval will include the following terms of the loan:

- Purpose of Interfund Loan
- Identification of the source fund
- Availability of unrestricted funds in the source fund
- Review of multi-year plans for use of source fund cash
- Analysis of legal or contractual restrictions
- Repayment of Interfund Loan

- Repayment must have a payment source and funding stream
- Specific repayment schedule
- Interest imposed at a rate equal to at least investment earnings if loan did not occur
- Other Considerations
- Feasibility of repayment
- Internal controls to monitor repayment

B. Short-term Loans

Short-term interfund loans for working capital to provide cash for Council-approved reimbursable grants and projects, are permitted. Short-term working capital loans are also permitted for temporary timing differences in cash flows when expenditures are incurred before revenue is collected. The source funds for working capital interfund loans are the General Fund and the Automotive Replacement Fund.

C. Prohibited Uses

- Interfund loans will not be used to solve ongoing structural budget issues.
- Interfund loans will not hinder the accomplishment of any function or project for which the lending fund was established.

**City of Roseville  
Request for Proposals (RFP) Policy  
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## I. INTRODUCTION

The purpose of this policy is to provide a uniform process for the issuance, evaluation, and selection of competitive proposals for services and/or customized goods.

## II. DEFINITION

Request for Proposals (“RFP”) is a competitive proposal process whereby the City solicits proposals from potential proposers. The RFP process is used for requirements in which the desired outcome is known, but it is difficult to define the methodology or the exact materials or services required to achieve the desired results.

Objectives of the RFP process are to:

- A. Describe the City’s requirements and desired outcomes within a written specification;
- B. Solicit proposers for their proposed solutions;
- C. Describe key criteria to be used in the evaluation of proposals;
- D. Outline the terms and conditions under which the proposer(s) will operate or supply goods and/or services.

The City should use its best efforts to ensure that any RFP is as complete and thorough as possible, however should the scope of work or services of any RFP increase by twenty-five percent (25%) or more after publishing the RFP, that RFP should be withdrawn and any proposals rejected and a new RFP should be issued that includes the increased scope of work or services.

## III. USE OF AN RFP

- A. Contracts for goods or services with an estimated value greater than the amount stated in Roseville Municipal Code (“RMC”) Sections 4.12.090 and 4.12.095 must be awarded by the use of competitive bids or an RFP, unless exempted by the City Council or law. Contracts for goods or services estimated to be equal or less than the amount stated in RMC Sections 4.12.090 and 4.12.095 may be awarded upon conclusion of informal interviews by representatives of the initiating department and other City staff, including the Purchasing Division (“Purchasing”), or by an RFP, as may be appropriate.
- B. Notwithstanding the foregoing, qualifying goods or services may be procured without issuing an RFP. A qualifying good or service is one where there is only a

single source for obtaining the particular good and/or service. Examples of sole source goods or services include, but are not limited to, patented, copyrighted, licensed items, specialized test equipment/facilities, critical schedule requirements, unique services, and standardized goods or services for which there is only a single source. Prior to contracting with a sole source, the initiating department shall complete the sole source authorization form. Furthermore, with respect to professional services with an estimated amount exceeding the amount stated in RMC Sections 4.12.090 and 4.12.095, such services may not be procured through sole source without the prior authorization of the City Manager and City Attorney.

#### IV. PUBLIC NOTICE

Public notice of the RFPs shall be given in the same manner as provided in RMC Section 4.12.090.

The originating department (“Department”) should also generate a list of potential proposers to notify and direct them to the RFP section of the City’s website to access the RFP.

#### V. FORM OF PROPOSAL

- A. City staff must use the City’s latest version of the RFP template for the initial framework of the document and the City’s Purchasing Guidelines should also be referred to. The RFP content should define the Department’s needs and describe the scope of the work, allowing the potential proposer to develop the project details.
- B. Late proposals shall not be accepted; however, staff may extend the time for submission of all proposals.
- C. Each proposal must be signed by an authorized representative of the proposer and include the legal name of the proposing organization and the signer’s title. By signing the proposal, it is presumed that the signer has authority to bind the proposer to the proposal’s terms.
- D. RFPs are scored based on the criteria presented in the RFP. Proposers may propose any method or process to satisfy the scope of work in the RFP that maximizes responsiveness to the criteria stated in the RFP.

## VI. EVALUATION FACTORS

Award of a RFP shall be made to the responsible proposer whose proposal is determined, through a formal evaluation panel process, to be the most advantageous to the City after the evaluation panel has taken into consideration the evaluation factors set forth in the RFP. A master averaged score sheet shall be created based on the evaluation panel's initial evaluation. Proposals shall be scored according to the criteria stated in the RFP.

Proposals submitted will be reviewed by an evaluation panel. Members of the evaluation panel shall be comprised of City staff and at the option of City may include non-City staff upon approval of the City Manager and City Attorney. After the initial evaluation, proposers that have submitted the best and most complete proposals may be invited to one or more interviews. The number of proposers invited to an interview may vary depending upon the number of proposals submitted.

The RFP may indicate the relative importance of evaluation factors. The following are representative evaluation criteria that may be considered by the Department when preparing an RFP:

- A. Reputation and Experience. Does the proposer have a reputation of being reliable, delivering on schedule, and performing tasks to the satisfaction of his/her clients? Does the proposer have sufficient experience in the kind of work required?
- B. Capability and Availability of Staff. Does the proposer have qualified and experienced staff needed to perform the work?
- C. Understanding of the Problem. Does the proposer demonstrate a thorough understanding of the issues and has it developed a relevant and effective approach?
- D. Proximity of the Proposer. Although no preference shall be given to local businesses, proposer's office and/or staff proximity to City of Roseville offices or work location as it relates to the proposer's ability to be responsive to the project requirements may be considered.
- E. Cost. Whenever possible and appropriate, a proposer's fee or hourly rate should be secured as part of the proposal and considered in the evaluation process. Whenever possible, RFPs should specify methods of submitting proposed costs that can be compared directly with competing proposals.

The City reserves the right to make a selection without interviews; therefore, the proposal should be submitted on the most favorable terms that the proposer might propose.

Should the City elect to conduct interviews with any proposers, the following criteria shall be considered and each proposer ranked by the evaluation panel during the interview process:

- Quality of presentation
- Ability to meet the City's business goals
- Communication style

A contract will be negotiated with the proposer considered best meeting the City's need for the project. In the event a mutually satisfactory contract cannot be negotiated with the City's first choice, negotiations may be terminated and commenced with the proposer considered next best in meeting the City's needs for the particular project.

The selected proposer will be required to execute a City prepared contract. The contract may further refine the scope of services and will provide for the terms and conditions of employment.

Evaluation Score Sheets. Upon a request pursuant to section 1.8 below, a proposer is entitled to a master averaged score sheet that reflects the averaged evaluation scores of the proposers during the evaluation panel's initial evaluation and the ranking of proposers from any interview (individual score sheets and/or notes are temporary and are not retained following a determination of the evaluation panel). The master score sheet and ranking shall be prepared by City staff prior to notifying any proposers of the results.

## VII. DISCUSSIONS WITH PROPOSERS AND REVISIONS TO PROPOSALS

- A. As provided in the RFP, discussions may be conducted with responsible proposers. These discussions shall be for the purpose of clarification to assure full understanding of, and responsiveness to the solicitation requirements. The proposers shall be accorded fair and equal treatment with respect to any opportunity for discussion and revision of proposals, and such revisions may be permitted prior to the evaluation panel's determination of the award recommendation for the purpose of obtaining best and final proposals. In conducting discussions, there shall be no disclosure of any information derived from proposals submitted by competing proposers.
- B. After the evaluation panel has determined the proposer(s) to be recommended for award, the Department may enter negotiations with the recommended

proposer(s) to finalize proposed services and price before the evaluation panel's formal notice of intent to award is made.

#### VIII. AWARD PROCESS

- A. The award is made to the proposer(s) that is determined to best meet the overall needs of the City. For contracts for goods or services with an estimated value greater than the amount stated in RMC Sections 4.12.090 and 4.12.095, the award of such contract is expressly contingent upon City Council approval and the availability of funds. City staff may not legally bind the City to a contract with an estimated value greater than the amount stated in RMC Sections 4.12.090 and 4.12.095.
- B. Rejection of RFP. The City reserves the right to reject any or all proposals, to waive defects or irregularities in any proposal or in the RFP process, and to offer to negotiate or contract with any proposer(s) in response to any RFP. RFPs do not constitute any form of offer to contract.
- C. Multiple Award. The City reserves the right to award the contract to multiple proposers when applicable.
- D. A formal notice of the intent to award to the recommended proposer(s) shall be made by the Department.

#### IX. PUBLIC DISCLOSURE

In accordance with the California Public Records Act, proposals submitted in response to a RFP, master averaged score sheets from the initial evaluation, and/or rankings from any interview shall be made available upon a public records request only after: (1) the proposal evaluation process is complete, (2) a contract has been negotiated, and (3) notice of intent to award has been made and/or the contract is placed on a City Council meeting agenda.

#### X. PROTESTS

- A. Protest Requirements
  - 1. Any proposer who is aggrieved in connection with the solicitation or award of a contract may file a protest with the City Clerk's office. The protest must be received in writing by the City Clerk's office within seven (7) calendar days after such aggrieved proposer 1) knows or should have known of the facts giving rise thereto or 2) the date of the notice of intent to award, whichever is sooner. In no event shall a protest be

allowed after an award has been made by City Council. If the seventh calendar day falls on a weekend or City holiday, the protesting party may submit the protest prior to close of business on the first business day following such weekend or holiday. Failure to submit a timely protest shall bar consideration of a protest.

2. RFPs must include a notification to prospective proposers of this protest policy.
3. Departments must notify and consult with Purchasing and the City Attorney's Office immediately upon becoming aware of any potential or actual protest. In the event of a proper protest, the RFP process shall be stayed pursuant to Section X (D) of this Policy.

**B. Grounds for Protest**

1. The alleged grounds for protest shall be limited to the following: (a) computation errors, (b) violations of local, state, or federal law, or (c) the City failed to follow the procedures specified in this Policy.
2. The protest shall state all grounds claimed for the protest and include supporting documentation. Failure to clearly state the grounds for the protest and provide supporting documentation shall be deemed a waiver of all protest rights.

**C. Administrative Review**

Upon receipt of the protest in accordance with Section X (A), and after determining the protest was properly filed, the Department Director shall provide a copy of the protest to other proposers who might become aggrieved as a result of the protest and issue a written decision within fourteen (14) calendar days after receipt of the protest. The protest will be evaluated by the Department Director, the City Attorney's Office, and the Purchasing Manager. The protesting proposer shall promptly provide any information requested by City staff as part of such investigation. The decision shall either deny or uphold the protest and include reasons for the decision. The written decision shall be final.

**D. Stay of Action during a Protest**

In the event a protest is filed under Section X, the City shall not proceed further with the award of the contract until the protest is resolved, unless:

1. The City Manager or designee makes a determination that the award of the contract without delay is necessary to protect a substantial interest of the City, or
2. The City decides to reject all proposals and issue a new RFP.

# City of Roseville Internal Control Policy

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## I. INTRODUCTION

The purpose of this City policy is to document the internal control framework adopted by the City and to formalize certain policies and procedures to further the goal of fiscal responsibility through effective and comprehensive internal controls.

## II. BACKGROUND

The City has a responsibility to taxpayers, ratepayers and constituents regarding stewardship of public funds and other assets. In the City's efforts to serve the public as City officials or employees, the City establishes this Internal Control Policy using recognized best practices and state and federal guidelines. California Government Code (GC) section 12422.51 requires the State Controller to develop internal control guidelines applicable to local agencies. The intent of the legislation was to assist local agencies in establishing a system of internal control to safeguard assets and prevent and detect financial errors and fraud. The City's Internal Control Policy conforms to the State Controller's Office (SCO) Internal Control Guidelines for California Local Agencies, as well as to the federal Office of Management and Budget (OMB)'s "Green Book", Standards for Internal Control in the Federal Government. The internal control framework adopted by the SCO and OMB in their guidelines was originally developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), an organization that develops guidelines for businesses to evaluate internal controls, risk management, and fraud deterrence.

Internal control is defined as a process effected by an entity's oversight body, management and other personnel that provides reasonable assurance the entity's objectives will be achieved. Internal controls are policies and procedures put in place to help achieve goals and objectives. There is, however, an inherent limitation on the effectiveness of any internal control due to the cost/benefit relationship that must be considered, meaning that the cost of the internal control should not outweigh the potential benefit of the control.

## III. FIVE COMPONENTS OF INTERNAL CONTROL

Internal control is comprised of five components that work together in an integrated framework:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring Activities

## A. Control Environment

The control environment is the foundation for all other components of internal control, providing discipline and structure. Moreover, management establishes the tone at the top regarding the importance of internal control and expected standards of conduct and reinforces expectations at various levels. Control environment factors include the integrity, ethical values and competence of the City's personnel; the way management assigns authority and responsibility and organizes and develops its personnel; and the attention and direction provided by the City Council.

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the City. The City Council and management establish the “tone at the top” regarding the importance of internal control, including expected standards of conduct, which then cascade down throughout the various levels of the organization and have a pervasive effect on the overall system of internal control. The control environment extends beyond the idea of culture and comprises the following:

1. The City's integrity and ethical values
2. The City Council's oversight responsibilities
3. The assignment of authority and responsibility
4. The process for attracting, developing, and retaining employees
5. The measures, incentives, and rewards to drive accountability for performance

The City's control environment is influenced by a variety of factors including its history, values, market, and the competitive and regulatory landscape. An organization that establishes and maintains a strong control environment positions itself to be more resilient in the face of internal and external pressures.

The City's policies and procedures include but are not limited to:

1. City Management has established the values and operating style for the organization through its Core Competencies, policies and procedures, and communicated them to all employees.
2. City Council and management receive and update their ethics training as required by AB 1234.

3. The City regularly considers the structure of the organization in terms of its size and the nature of its operation.
4. Management has established policies and practices reflecting expectations of competence.
5. Management provides the mentoring and training needed to attract, develop, and retain sufficient and competent personnel.

B. Risk Assessment

A local government's risk assessment process involves identifying risks to achieving organizational objectives, assessing the design of internal controls that mitigate these risks, and assessing whether the controls are effective. Risk assessment must be conducted by management on an on-going basis and include the following steps:

1. Define objectives clearly to enable the identification of risks and define risk tolerances.
2. Identify, analyze and respond to risks related to achieving the defined objectives.
3. Consider the potential for fraud when identifying, analyzing and responding to risks.
4. Identify, analyze and respond to significant changes that could impact the internal control system.

Internal changes such as changes in operating activities, the control environment, or organizational structure in addition to external changes such as changes within the regulatory environment, technological and economic changes all have an effect on risk. For this reason, a continuing effort to assess changes in risk and their effect on internal controls must be conducted.

The City's policies and procedures include but are not limited to:

1. City management addresses risk assessment in conjunction with the supervision of staff. When providing direction to staff in the performance of their duties, management may identify information as to the types of errors, policy violations, fraud, or noncompliance to which they should be attentive in the performance of their duties.

2. City Department Head Team communicates regularly about new or changed risks, conditions, actions, or events that may impact the ability of departments to manage the risks relevant to their operations.
3. Finance personnel attend training sessions to become aware of new accounting pronouncements and emerging issues in order to further identify and manage risks associated with proper financial reporting.
4. Departments send staff to conferences and program training sessions for the purpose of identifying likely risks of noncompliance, fraud, and error relevant to the programs that they manage.
5. The Information Technology (IT) Department periodically identifies and communicates risks for which employees should be particularly vigilant.

C. Control Activities

Control activities are the policies and procedures that help ensure that management directives are carried out. Control activities, whether within IT or manual systems, have various objectives and are applied at various organizational and functional levels. Examples of specific control activities include those relating to the following:

1. Authorization
2. Financial performance reviews
3. Information processing
4. Physical controls
5. Segregation of duties

The City's policies and procedures include but are not limited to:

1. Staff perform timely bank reconciliations as an effective tool to detect errors.
2. Internal financial reports are reviewed and compared to budget on a periodic basis and variances are investigated.
3. Purchasing guidelines are established that detail authorization limits, when contracts are required, and when purchases are subject to bidding or informal quotes.

4. Positive pay, which is a banking service to quickly detect check fraud, is employed.
5. Investment and debt policies are approved by Council to define the parameters and authorizations for investing and issuing long-term debt.
6. Procedures are established to ensure timely repayment and compliance with on-going debt covenants.
7. The Council-adopted budget ordinance is the policy used to establish budgetary control and the approval process required for budget adjustments.
8. Exceptions to any City policy or Administrative Regulation must be documented in writing and approved by an Assistant City Manager or the City Manager.

D. Information and Communication

Information is necessary for an entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables staff to receive a clear message from management that control responsibilities must be taken seriously. External communication is twofold as it enables inbound communication of relevant external information and provides information to external parties in response to requirements and expectations.

Communication is not an isolated internal control component. It affects every aspect of an organization's operations and helps support the system of internal control. The feedback from this communication network can help management evaluate how well the various components of the system of internal control are working.

The City's policies and procedures include but are not limited to:

1. The City Council adopts annual budgets and budget adjustments after a budget development process that encourages public engagement.

2. Staff provide quarterly financial reports to the City Council for review.
3. City management provides written instructions to all financial personnel with a role in the budget development and year-end close processes.
4. The City uses intranet and internet sites to communicate important information to employees, the City Council, and the public. Information provided on internet sites includes annual financial reports, adopted budgets, and summaries of City Council actions.
5. The City uses management-authorized job descriptions for all personnel.
6. The City monitors events at the state and national levels for pertinent legislative and regulatory actions.
7. Meetings of management personnel are conducted to review City Council agenda items, new initiatives, budget updates, and other important information.
8. City departments conduct staff meetings which provide an opportunity for information sharing up, down, and across the organization.
9. The City uses a whistleblower communication protocol called “Speak Up” for reporting potential wrongdoing, which allows anonymous reporting as an option and is a direct communication channel to the City Manager.

E. Monitoring

Monitoring involves evaluating the effectiveness of internal controls on an on-going basis and taking remedial actions when necessary. On-going monitoring activities often are built into the normal recurring activities and include regular management and supervisory activities. Management’s monitoring of controls includes considering whether they are operating as intended and that they are modified as appropriate for changes in conditions.

The City’s policies and procedures include but are not limited to:

1. Staff use the quarterly review of budget-to-actual reports to ascertain the on-going quality of the accounting controls that are used to produce reliable and consistent financial information about the City.
2. Staff respond to information received from employees regarding the accuracy of their payroll checks in order to give the City information

about the quality of the internal controls associated with the payroll process.

3. Staff respond to information received from vendors regarding the accuracy of payments made on vendor invoices in order to give the City information about the quality of the internal controls associated with the accounts payable process.
4. Staff respond to information received from customers regarding the accuracy of utility billings in order to give the City information about the quality of the internal controls associated with the utility billing system.
5. Staff follow up on corrective action plans for audit findings until recommendations are implemented.

# City of Roseville Procurement Code of Ethics Policy

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I. INTRODUCTION

Public employees are stewards of public funds and must ensure that expenditures of public funds, such as through the procurement and contracting process, occur in an ethical and responsible manner. All employees must perform their duties impartially to assure fair, competitive access to governmental procurement and to discourage conduct that is inconsistent with the proper execution of the employee’s duties. Moreover, public employees must maintain a standard of conduct that inspires public confidence and trust in the integrity of the City’s procurement process.

II. PURPOSE

The purpose of this policy is to provide a well-defined and established code of ethics for City of Roseville employees, including public procurement professionals, who interact with the public and represent the City in any way in relation to all procurement activities and to ensure integrity in the procurement and contract process.

III. POLICY

It is the policy of the City of Roseville to foster public confidence in the integrity of the City’s procurement process by ensuring that all employees who engage in public procurement adhere and commit to the City’s Procurement Code of Ethics Policy to perform their duties with integrity, honesty, fairness, and transparency and to avoid conflict of interests, engaging in questionable practices, and offers of personal benefit. All employees shall uphold the following standards:

IV. GENERAL STANDARDS OF CONDUCT

- A. Employees shall act impartially and with the highest degree of integrity to foster public confidence in city government and will make every effort to ensure open and fair competition for all available City business in accordance with the Roseville Municipal Code and this Policy.
- B. Employees shall conduct themselves in a courteous and professional manner with vendors, contractors, consultants and suppliers, henceforth referred to as “vendors”; internal customers, and members of the public with whom they come into contact, striving to act objectively and without discrimination or bias of any form.
- C. Employees shall not use confidential or sensitive information acquired in the course of their duties for personal gain or for the benefit of family or friends, and will act only within the official level of their authority.

- D. Employees shall keep their supervisor informed as necessary, immediately upon learning of a potential or existing problem that may impact the integrity of a procurement or contract activity.
- E. Employees shall not willfully or unlawfully conceal, remove, mutilate, falsify, or destroy any government document or record, nor shall they make any false or fictitious statements in connection with any official procurement matter, document or record.

V. CONDUCT WITH OUTSIDE VENDORS AND CONTRACTORS

- A. Employees shall base all purchases on the principle of competitive bidding/quotes consistent with the existing laws and policies of the City.
- B. Employees shall grant all competitive quotes or bids equal consideration, regard each transaction on its own merits, and promote fair, ethical, and legal trade practices. Employees shall not give out information about bids or bidders prior to bid opening. Any information provided must be provided in a controlled manner to ensure that all potential bidders receive the same information at the same time.
- C. Employees shall refrain from showing favoritism or being influenced by outside vendors through the acceptance of gifts, gratuities, loans or favors.
- D. Employees shall refrain from requiring outside vendors to pay to be included on an approved or preferred vendor/contractor list.
- E. Employees shall refrain from requesting donations of goods or services to the City.
- F. Employees shall avoid the exertion of undue influence or abuse of power.

VI. CONFLICT OF INTEREST IN PROCUREMENT

- A. Employees shall avoid all potential or actual conflicts of interest to ensure that all procurement decisions are made in an independent and impartial manner.
- B. Purchasing staff and others who regularly participate in contract activities on behalf of the City must disclose relevant financial interests as required by State

Law and by City policy and to annually review those statements in conjunction with this Policy and other ethical standards.

- C. If a possible conflict of interest is identified, it must be reported to the Department Head and reviewed and documented with the City Attorney's Office.
- D. Employees involved in a procurement selection process shall not accept, directly or indirectly, any tangible or intangible benefit valued at \$50.00 or more (including, but not limited to, money, gifts, favors, entertainment, discounts, passes, transportation, accommodation, hospitality, meals or offers of employment, etc.) from any person, firm, organization, company or corporation, that may influence or give the appearance of influencing procurement-related decisions, within six months before or after a contract award.
- E. Employees shall declare a conflict when a vendor is to be selected for contract award that employs them, or their immediate family member or partner, or is about to employ them.
- F. Employees shall, upon learning that the City is conducting or intends to conduct business with a vendor with which they, or a member of their immediate family have a financial interest, immediately disclose this real or apparent potential conflict of interest to their supervisor and refrain from all activity with respect to this vendor.
- G. Employees shall not, in the performance of their official duties, participate directly or indirectly in any matter pertaining to any contract, or subcontract, and any solicitation or proposal thereof, in which to the employee's knowledge:
  - 1. They or any member of their immediate family has a substantial financial interest;
  - 2. A business or organization in which they or any member of their immediate family has a substantial financial interest as an officer, director, trustee, partner or employee, is a party; or
  - 3. Any other person, business, or organization with whom they or a member of their immediate family is negotiating or has an agreement concerning prospective employment, is a party.

- H. Direct or indirect participation, for purposes for Section (VI)(G), shall include, but is not limited to, involvement through decision, approval, disapproval, recommendation, preparation of any part of a procurement transaction, influencing the content of any specification or purchase standard, rendering of advice, investigation, auditing, or in any other advisory capacity.
- I. Employees and members of the employee’s immediate family shall not enter into an agreement (contract or purchase order) with the City of Roseville, and the City shall reject all bids and proposals that are submitted by a City employee’s immediate family.

VII. CONFLICT OF INTEREST CHECKLIST

- A. Employees should consider all of the following questions to determine whether a potential or actual conflict of interest exists through their participation in a proposed procurement or contract activity:
  - 1. Personal Relationships
    - a) Do you currently have or have had any official, professional, financial, or personal relationships with any person or firm associated with this assignment?
    - b) In your opinion, might this affect your judgment or your ability to execute this assignment in a fair and impartial manner?
  - 2. Stock and Investments
    - a) Do you own any stock in any company likely to be affected by or involved in the proposed procurement activity?
    - b) Does your spouse, domestic partner, or a dependent own any stock in any company likely to be affected by or involved in the proposed procurement activity?
    - c) Do you hold any investments in any entity (e.g., partnership, limited liability company, or a trust) likely to be affected by or involved in the proposed procurement activity?

d) Does your spouse, domestic partner, or a dependent hold any investments in any entity (e.g., partnership, limited liability company, or a trust) likely to be affected by or involved in the proposed procurement activity?

3. Employment and Consulting

a) Is your spouse, domestic partner, or a dependent employed/retained by anyone likely to be affected by or involved in the proposed procurement activity?

b) Has your spouse, domestic partner, or dependent been previously employed/retained by anyone likely to be affected by or involved in the proposed procurement activity?

c) Have you been employed/retained by anyone likely to be affected by or involved in the proposed procurement activity?

4. Payment or Gifts

a) Within the past 12 months, have you received any payments or gifts of \$50.00 or more from anyone likely to be affected by or involved in the proposed procurement activity?

b) Within the past 12 months, has your spouse, domestic partner, or a dependent received any payments or gifts of \$50.00 or more from anyone likely to be affected by or involved in the proposed procurement activity?

5. Real Estate

a) Do you own real property that is likely to be affected by or involved in the proposed procurement activity?

b) Does your spouse, domestic partner, or a dependent own real property that is likely to be affected by or involved in the proposed procurement activity?

6. Positions

- a) Do you currently hold a position (e.g., member of a board of directors) of any entity (e.g., a company, partnership, association, nonprofit) that is likely to be affected by or involved in the proposed procurement activity?
- b) Does your spouse, domestic partner, or a dependent hold a position (e.g., member of a board of directors) of any entity (e.g., a company, partnership, association, nonprofit) that is likely to be affected by or involved in the proposed procurement activity?

7. Are you aware of any facts or circumstances that might give someone the impression that your participation in this process would create a conflict of interest?

VIII. CONFIDENTIALITY DURING THE EVALUATION PROCESS

City employees, vendors, and outside evaluators who participate in the evaluation process shall not share any information about responses received and the evaluation process until the City issues a Notice of Intent to Award.

**City of Roseville  
Roseville Electric Utility Financial Policy**

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## I. PURPOSE

The purpose of Roseville Electric Utility’s financial policies is to provide management guidance to maintain a fiscally sound utility.

## II. BACKGROUND

Establishing financial policies assists the utility by:

1. Providing long term direction
2. Providing guidance for managing resources
3. Setting goals for rate planning
4. Maintaining and improving bond ratings and outlooks
5. Adopting metrics to measure and sustain a strong financial position.

Roseville Electric Utility uses financial ratios from these policies to analyze performance trends and compare financial results to other utilities. These ratios and benchmarks are also used by credit rating agencies, investors, and bond insurers to measure credit worthiness.

## III. POLICY

The five financial policies include:

- Rate Stabilization Fund
- Debt Service Coverage Ratio
- Days Cash on Hand
- Fixed Cost Coverage
- Debt Service Reserve

### 1. Rate Stabilization Fund

*Maintain a rate stabilization fund (contingency reserves) balance of a minimum 40% and maximum 90% of operating expenses with a target balance of 65%.*

The purpose of the rate stabilization fund is to provide reserves to cover large contingencies such as fluctuation in fuel costs, while limiting or leveling out the impact of cost increases to rate payers. Reserve adequacy is reviewed carefully by rating agencies, bond insurers, and bondholders when evaluating a company’s financial position.

The balance in the rate stabilization fund will fluctuate from year to year as funds are transferred into and from operations, maintaining level rates for our customers. The goal is to maintain an average target for the rate stabilization fund of 65% of the annual operating expenses, accepting a range of 40% to 90% in any fiscal year. By establishing a goal to maintain the rate stabilization fund at 65% of operating costs, Roseville Electric Utility should possess sufficient reserves available for contingencies.

**2. Debt Service Coverage Ratio**

*Maintain an annual debt service coverage ratio of minimum 2.0. Maintain a debt service coverage requirement as required by bond covenants.*

The debt service coverage ratio is one of the primary measures of a utility's financial position. This ratio calculates funds available to pay debt service and measures a utility's ability to meet its annual debt obligations. This is a key indicator used by rating agencies, bond insurers, and investors in evaluating our ability to meet our annual debt obligations. The formula is (annual net revenues annual debt service obligations).

**3. Days Cash on Hand**

*Maintain a cash balance (excluding restricted items) greater than 250 days.*

Days cash on hand is an indication of how many days operating expenses could be paid before additional income is needed. It measures a utility's ability to meet its annual operating obligations. This is a key indicator used by rating agencies, bond insurers, and investors in evaluating our ability to meet our operating obligations. The formula is (cash\*365 / annual operating expenses - depreciation).

Restricted cash and cash held with joint powers agencies are excluded from the calculation.

**4. Fixed Cost Coverage**

*Minimum fixed cost coverage ratio of 1.5.*

Fixed cost coverage is an indication of how many times fixed costs can be paid from income. This is a key indicator used by rating agencies, bond insurers, and investors in evaluating the utility's ability to pay fixed costs. The formula is (Net revenue – net transfers (including General Fund transfers) not included in net revenue + total debt service) / (total debt service). The debt service includes Roseville's off balance sheet debt obligation held by joint powers agencies.

**5. Debt Service Reserve**

*Maintain a fully funded debt service reserve as required by bond covenants.*

Debt service reserve ensures adequate cash is available to fund payments to bond holders. Actual cash is held by a fiscal agent and a reservation of fund balance is recorded in the financial statements. The value is set by bond covenant documents and is typically equal to one full year of debt service.

**City of Roseville  
Environmental Utilities Financial Management Policy**

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**April 2015**

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## 1. Executive Summary

The Roseville Environmental Utilities Department (the “EUD” or the “Department”) manages the city’s water, wastewater and solid waste utilities (the “Utilities”). The Utilities are separately managed financial entities and as such, each faces different constraints and environments and must manage its finances accordingly. With this notion in mind, the Utilities developed this Financial Management Policy (the “Policy”) with the intent of giving each Utility a set of guidelines with which it can successfully and prudently manage its finances.

The Policy affirms the currently used Rehabilitation and Enterprise Fund guidelines, clarifies and adjusts targets for cash flows available for debt service and operating costs, and establishes targets for sizing Reserves (previously 10% of Operating Expenses).

Specifically, the Policy sets cash flow management guidelines for both the debt holding and non-debt holding enterprises and recommends reserve levels based on each Utility’s respective risk profile. To the extent that a Utility holds public debt, the Policy establishes Debt Service Coverage (“DSC”) targets to ensure the Utility’s ability to meet both its operating and debt service obligations; otherwise, the Policy recommends managing cash flow by targeting an Operating Ratio (Operating Income divided by Operating Expenses). The Policy then sets recommends reserve levels in order to help the Utilities manage exposure to operating risks, critical failures, and rate volatility. The Policy also provides recommended conditions for rate actions when cash flows and/or Reserves deviate from their prescribed targets.

## 2. Introduction

The Utilities are publicly-owned community assets for the City of Roseville (“Roseville” or the “City”) that provide safe, reliable, competitively-priced water, wastewater, solid waste, and recycled water services to all of their customers. The Utilities prepared the Policy with the intent of establishing guidelines for managing the financial profiles of each Utility.<sup>1</sup>

The Policy is divided into six sections: Purpose, Defining Financial Strength, Enterprise Fund Fees and Rates, Rehabilitation Funds, Recommended Debt Service Coverage and Operating Ratio Policies, Recommended Reserve Policies, and Interaction between Coverage and Reserves.

It is intended that to maintain relevance, the Utilities will revisit the Policy periodically if there is a material change in risk exposures or conditions.

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<sup>1</sup>The Policy focuses on the Water, Wastewater, and Solid Waste Utilities as the Recycled Water Utility does not keep independent financial records but is currently part of the Wastewater Utility.

### **3. Purpose**

The purpose of this Financial Management Policy is to provide a set of guidelines for prudently managing the financial profiles of the Utilities. In practice, this Policy will discipline the budgeting and rate setting practices, establish guidelines to improve the financial health of each Utility over the long term, and seek to balance the need for capacity growth while maintaining competitively low rates.

Like all enterprises, the Utilities manage cash flow to cover expenditures and hold reserves to address anticipated and unanticipated funding requirements.

The Policy is based upon the understanding that the following factors are important and should serve as the relevant goals of the Policy. These goals establish that each Utility should:

1. Manage rates to avoid significant year-over-year rate adjustments.
2. Strive to maintain and invest in its respective system.
3. Maintain reserves for financial exposures.
4. Cost-effectively obtain funds to maintain and invest in its respective system.

The Policy is further intended to offer the Roseville City Council (the “City Council”) guiding directives to staff for decisions and recommendations related to the financial profile of each Utility.

The Policy is not prescriptive in terms of how the Utilities set rates; however, there is a nexus between the rates that each Utility charges and its respective financial profile. While the Policy attempts to recognize the balance between each enterprise’s risk management, financial risk management and rate setting, the Policy cannot resolve conflicts between competing objectives and so it instead provides guidelines for the financial management of each Utility to be considered by the City Council and staff in coordination with other considerations.

### **4. Defining Financial Strength and Credit Considerations**

The Utilities’ businesses are subject to a number of significant environmental, market, and regulatory considerations on national, state, and local levels. The determination of financial strength is subjective, but it ultimately relates to the expectation that the Utilities can continue to meet their primary financial goals in the context of the macro considerations that each Utility faces.

## **Anticipated and Unanticipated Financial Considerations**

One characteristic of financial strength is the ability to prepare for anticipated events and obligations including, but not limited to:

- Operation and maintenance expenses (O&M).
- Debt service payments.
- Exposure to weather related events such as droughts.
- Response to existing or impending regulations.

Another characteristic of financial strength is the ability to address unanticipated considerations including, but not limited to:

- Unanticipated general reduction in customer demand.
- One or more operational events (natural disaster or other events including force majeure, etc.) that could dramatically increase costs or reduce resource options, the loss of one or more large customers.
- Market disruption that increases the cost of borrowed funds.
- Counterparty's inability to perform on a contract.
- Change in regulatory or environmental regulations.
- Unanticipated increase in compensation costs.

While such considerations are by nature, unanticipated, the Policy recognizes that the financial strength of each Utility is at least partially related to the ability to address such considerations should they arise.

## **Ratings as Indicators of Financial Strength**

While credit ratings are important yardstick indicators of financial strength, the Policy is not focused on maintaining credit ratings but rather the overall financial strength of the Utilities as only some of the Utilities have or will have ratings. It is expected, however, that by following the guidelines of the Policy, the Utilities will maintain strong credit ratings.

Specifically, it is expected that the Water Utility will be able to maintain A+ category ratings and will be able to make a strong case for AA- category ratings while the Wastewater Utility will be able to support the South Placer Wastewater Authority ("SPWA") in maintaining A or higher, category ratings. SPWA issues debt on behalf of the City of Roseville, Placer County and South Placer Municipal Utility District for regional wastewater treatment facilities to be used by these agencies.

## 5. Enterprise Fund Rates and Fees

Environmental Utilities are 100% self-sufficient. The primary revenue streams for the Utilities are rates and fees established by the City Council. This Policy identifies the manner in which rates and fees are set and the extent to which they cover the cost of services provided. A revenue system that requires the identification of both the cost of the programs and the portions of the cost that will be recovered through those revenues allow the Department and its utility customers to develop a better understanding of the cost of services and to consider the appropriateness of established rates and fees.

### Policy

The City will set rates and fees at levels related to cover the reasonable cost of providing services which includes direct and indirect costs such as operating and maintenance, overhead, infrastructure rehabilitation, and debt service. The Department will review these rates and fees annually in the budget process and will recommend rates that are expected to produce revenues sufficient to fully fund the reasonable costs of providing services. Further,

- All rates and fees shall be adopted in accordance with the provisions of Prop 218 and AB1600.
- The City will examine utility rates through the cost of service process every two years or as otherwise determined in an effort to avoid the rate shock that occurs when rates are evaluated less frequently.
- Revenue and expenses will be projected using conservatism.
- Revenue requirements will be based on long-term planning objectives.

During the rate and fee setting process, the City will consider the rates and fees of other agencies as comparing the City's rates and fees to other agencies' provides useful background information because:

- Other agencies' rates and fees reflect in some ways the current "market's" rates for similar services provided by the Utilities and can assist the City is assessing the reasonableness of proposed rate and fee changes.
- They can serve as a benchmark for how cost-effectively the Utilities are providing their services.

Rates and fee comparisons, however, should never be the sole or primary criteria used in the City's rate and fee setting process. The City should also place under consideration:

- What level of cost recovery is the rate and/or fee intended to achieve?
- What costs are considered in the computation of rates and fees?
- Timing: When was the last time the other agencies' fees were comprehensively evaluated?

- What level of service do the other agencies provide compared to the City's?
- Are other agencies' rate structures significantly different than the City's and what is each entities' rate structure intended to achieve?

## 6. Rehabilitation Funds

The Utilities have established Water, Wastewater and Solid Waste Rehabilitation Funds (the "Rehabilitation Funds". The Water and Wastewater Rehabilitation Funds administer the capital rehabilitation and replacement of existing infrastructure assets. Solid Waste Rehabilitation Funds are used for the rehabilitation and replacement of bins and cans.

### Policy

#### *Sources of Revenue*

The primary source of revenue for the Rehabilitation Funds is Utility rates. City Council adopted Utility rate schedules include an amount for the rehabilitation or replacement of infrastructure assets or capital assets for each utility. The rates are collected in the Operations Funds and transferred to the Rehabilitation Funds.

The Wastewater Rehabilitation Fund also includes local wastewater connection fees. These fees are collected for the specific purpose of purchasing and/or replacing capital equipment required for the maintenance of wastewater facilities. Other sources of revenue for the Wastewater Rehabilitation Fund include:

- Interest earned on unexpended funds or reserves that will remain in the Rehabilitation Funds and be available for approved expenditures.
- Any grant, loan, or other source of revenue obtained for the purpose of capital rehabilitation or replacement or infrastructure assets will be included in the Rehabilitation Fund, made available for approved expenditures, and accounted for as required by the grant, loan, or other source.

#### *Expenditures*

Rehabilitation Funds may only be used for Water and Wastewater infrastructure asset or Solid Waste capital asset capital rehabilitation or replacement expenditures. These expenditures:

- Must serve the purpose of benefiting the existing Water, Wastewater, or Solid Waste Utility customers.
- Must be approved by City Council.
- Must be included in the Rehabilitation Plan unless needed for unanticipated utility emergency purposes.

- May include updates necessary to comply with changes to regulatory requirements.
- Must be necessary to maintain the existing level of service which may include technological advancements.
- Must not increase capacity or conduct improvements beyond the scope described above.
- May be approved to pay for the respective utilities' debt service.
- If incurred in conjunction with an outside source of revenue (i.e. grant), must be accounted for as required by the outside revenue source.

### *Investments*

Investments must be made in accordance with City investment policies.

### *Fund Balances*

The Rehabilitation Funds will be administered independent of each other and of any other funds within the Utilities or the City. Lending of funds to or from the Rehabilitation Funds must be approved by City Council, must be considered only for the benefit of the respective water, wastewater, and solid waste systems and utility funds, and only for the benefit of the respective water, wastewater, and solid waste customers. Interest will be paid at the then-prevailing interest rate for city-pooled investments. Further, the majority of each Utility's Rehabilitation Fund balances should be invested or held in "liquid" assets (e.g., cash, money market accounts, treasuries, etc.) in order to ensure that immediate rehabilitation expenses can be met in a timely manner. Lending from the Rehabilitation funds will only be considered if they do not conflict with planned capital plan needs over the horizon of the repayment period.

### *Assessment of Capital Plan*

The water and wastewater capital rehabilitation and replacement needs will be reevaluated periodically. Items to be considered include, but are not limited to:

- Asset lifetimes by class of asset
- Inflation rates for both operating and capital costs
- Unit costs for asset replacement
- Fund interest yield rates
- Condition, criticality, and operational usefulness of assets
- Desired levels of service
- Consequences when desired levels are not met
- Risk of asset failure and level of acceptable risk of failure
- Measurements of various asset attributes that indicate how well an asset performs

The amounts transferred from Operation Funds to Rehabilitation Funds will be adjusted as necessary to reflect changes in the rehabilitation and replacement funding requirements. The impact of such adjustments on utility rates will also be analyzed to determine if an adjustment to water, wastewater, or solid waste utility rates is necessary.

*Roseville Public Utilities Commission*

The Roseville Public Utilities Commission will provide recommendations on the implementation of these policies, as appropriate, consistent with their role as an advisory body to the Roseville City Council.

*Rehabilitation Fund Policy Review*

The Rehabilitation Fund Policies designate a reassessment of the policies from time to time to determine if any changes are necessary. Any changes must be approved by the City Council.

## **7. Recommended Debt Service Coverage and Operating Ratio Policies**

This Policy recommends managing funds primarily to Debt Service Coverage (“DSC”) or Operating Ratios while maintaining a focus on reserves as well in order to meet each Utility’s management goals.

### **Policy**

A practical minimum DSC is 1.00x without reserves because at 1.00x, the Utilities are paying operating costs and debt service on a cash flow basis. There are, however, below the line cash outflows that should also be considered.

*Direct Debt Service Coverage and Operating Ratio Policy*

This Policy recommends the Water and Wastewater Utilities maintain DSC of 1.80x. This level maintains a cushion above the bond covenant requirement of 1.10x for the Wastewater Utility and 1.20x for the Water Utility. At 1.80x DSC, the Water and Wastewater Utilities can reliably use cash flow to pay for their operations including related depreciation expenses. The 1.80x DSC would leave adequate cash funding available to invest in general system improvements; however, significant capital improvements or additions would probably have to be financed with debt. This strikes a balance between funding capital through higher rates paid by current customers and funding capital through bond financing paid by future customers.

The Solid Waste Utility has historically enjoyed stable Net Operating Revenues. Due to the lack of volatility and overall lack of depreciable assets, it is recommended that the Solid Waste Utility maintain an Operating Ratio of 1.30x. The 1.30x Operating Ratio would leave

sufficient cash funding available to invest in any necessary capital improvements on a pay-go basis.

#### *Using Reserves to Meet Coverage*

The Policy recommends that the Utilities calculate DSC and Operating Ratios without Reserves and without accounting for Rate Stabilization Fund draws. The use of rolling coverage in calculating DSC is very useful for legal compliance purposes but it is not recommended for operating and financial management purposes as it may give an inaccurate depiction of financial health.

## **8. Recommended Reserve Policy**

Reserves are important to the Utilities because they help to:

- Ensure cash exists for the timely payment of bills.
- Maintain the short-term and long-term financial health of each Utility.
- Maintain stable rates for customers.
- Fund unanticipated cost contingencies.
- Ensure funds exist for system improvements.
- Act as a significant factor in bond ratings.
- Identify when financing should be procured.
- Identify the need for rate actions.

### **Policy**

The most common approach to sizing Reserves is by number of days of expenses. Water and wastewater utilities of about equivalent size to the City of Roseville Water and Wastewater Utilities typically have reserves of at least 250 days. Reserves of approximately 365 Days' Cash would be more typical for AA-/A+ category rated utilities and would be more appropriate to match the risks that the Water and Wastewater Utilities manage. It is recommended that the Solid Waste Utility maintain Days' Cash of approximately 90 days for the reasons described below.

#### *Operating Risk Management*

The Utilities use reserves to handle fluctuations and adjustments in every day expenses. It is recommended that each Utility maintains approximately 90 days' worth of Operating Expenses as one subcomponent of the Reserves. Such reserves would, amongst other things, be intended to cover timing issues with regard to payments, fluctuations in purchased water costs, and other operational issues. In consideration of these fluctuations in cost and cash requirement, 90 Days' Cash for regular operation management is a modest first component of the recommended Reserves.

### *System Critical Failure*

Each Utility should consider maintaining a portion of the Reserves that is for a single emergency event (e.g. treatment facility closure, conveyance disruption, etc.). In total, it is recommended that the Reserves set aside for system critical failure be equivalent to approximately 1.0 - 2.0% of the Capital Assets belonging to each respective Utility. Due to the lack of Capital Assets possessed by the Solid Waste Utility, it is not recommended that the Solid Waste Utility keep any reserves for the event of a system critical failure. This component of the Reserves may be forgone if it is determined that each Utility's exposure to critical failures is adequately covered through insurance.

### *Rate Stabilization*

In addition to addressing operating and maintenance issues, Reserves serve two other important purposes:

1. Reserves act as a shock absorber for ratepayers.
2. Reserves offer security to each Utility's debt holders. If an unusual financial or operating event leaves a Utility short of cash, Reserves can be used to avoid an immediate increase in rates to cover the shortfall.

Keeping some Reserves for rate stabilization would allow the Utilities to ensure that under virtually no circumstance would an Event of Default situation occur within a single year, and that the City Council would have the year to contemplate ways to prevent investors from enforcing rate actions on the Utilities' customers.

For such reasons, it is advisable that the Water and Wastewater Utilities target Reserves sized for rate stabilization at approximately 50% of annual operating expenses or roughly 180 Days' Cash.

Because the Solid Waste Utility does not hold any debt and has historically experienced very stable net revenues, it is recommended that the Solid Waste Utility not hold any reserves for the purpose of rate stabilization.

### *Other Uses for Reserves*

The aforementioned categories are those that most clearly merit the allocation of Reserves but are by no means the only categories of financial exposure that the Utilities could manage with Reserves. For instance, the Utilities have significant Pension and Other Post-Employment Benefit liabilities that could generate a cash requirement. Further, to the extent that the Solid Waste Utility faces fees for the closure of a landfill or similar occurrence, it may be prudent to hold additional reserves for such an event. Other risk categories such as interest rate exposure are relatively small and do not need to be reserved for separately, but are real risks that could potentially be managed with Reserves.

### *Reserve Policy Summary*

These recommendations would suggest that the following would be the appropriate Reserve levels for each Utility:

- Operating Risk Management: 90 Days' Cash
- System Critical Failure (Water and Wastewater Only): 1.0 - 2.0% of Capital Assets
- Rate Stabilization (Water and Wastewater only): ~180 Days' Cash
- Total Reserves: ~270 Days' Cash plus 1.0 - 2.0% of Capital Assets (Water and Wastewater); 90 Days' Cash (Solid Waste)

While these areas of consideration were evaluated in order to conceptualize the appropriate size of the Reserves, each Utility intends to maintain a single Reserve without separate buckets. These Reserve allocations are neither abnormally high nor low for industry standards. Each component of the Reserves is sized at less than the maximum possible exposure for each component because there is a recognition that it is unlikely several of the risks each Utility faces would materialize simultaneously.

### *Building and Drawing Upon Reserves*

The Water and Wastewater Utilities are targeting Reserves of about 270 Days' Cash plus 1.0 - 2.0% of Capital Assets while the Solid Waste Utility is targeting 90 Days' Cash, however, there is no intention of setting rates to maintain Reserves equal to the levels prescribed above. The purpose of Reserves is to address the financial impacts of revenue and expense fluctuations and unanticipated events. Excess reserves can be used for several financial imperatives including but not limited to: financing capital improvements on a pay-go basis, paying down existing debt, or lowering rates. The general philosophy of the proposed range is that the Water and Wastewater Utilities should target 270 Days' Cash plus 1.0 - 2.0% of Capital Assets and the Solid Waste Utility should target reserves of 90 Days' Cash. Each of the Utilities should limit reserves to 130% of the respective reserve targets. Each Utility's Reserves would increase or decrease depending upon many factors for a given year; however, to the extent that each Utility achieves its DSC or Operating Ratio Policy targets, Reserves would remain fairly stable. Reserves would increase or decrease under the following conditions:

- Net Revenues Available for Debt Service are higher or lower than budgeted/projected as a result of higher or lower Revenues and Expenses
- Debt Service is higher or lower than budgeted/projected
- Capital investment in the system from Net Revenues is higher or lower than budgeted/projected
- Debt issued for capital investment is greater or less than budgeted/projected

## 9. Interaction Between Coverage and Ratios, Reserves, and Rates

For reasons described in the sections above, the Policy prescribed specific targets for DSC and Operating Ratios and Reserves. However, the Policy anticipates that in practice there is a range of acceptable results and a balance between cash flow and reserve levels is warranted.

A rate increase should be considered by the City Council if any of the following conditions (the “Rate Increase Conditions”) are projected in the five-year forecast:

- DSC without Reserves will be less than 1.80x
- Operating Ratios (Solid Waste Only) without Reserves will be less than 1.30x
- Any rate increase would be greater than six percent
- A major expenditure is expected

Rate increases indicated by the above conditions that would exceed six percent in any one year can be spread over multiple years.

No rate increase for the purpose of increasing reserves or DSC should be considered if DSC or Operating Ratios without Reserves are above their respective targeted levels and Reserves are projected to be greater than the targeted levels of 270 Days’ Cash plus 1.0 – 2.0% of Capital Assets for the Water and Wastewater Utilities and 90 Days’ Cash for the Solid Waste Utility.

Lastly, it is important to note that recommendations in the Policy are associated with projected financial conditions for the Fiscal Year End of future years. Actual results will vary based on weather, market conditions, etc. In addition, Reserves and cash flow may be more or less robust within a Fiscal Year, relative to the Fiscal Year End but considering such fluctuations within a year would overly complicate monitoring with only marginal benefit.

## 10. Conclusion

The Policy was drafted with the intent of providing guiding directives to the Utilities’ management and staff for decisions and recommendations related to each Utility’s financial profile.

The Policy is a fairly incremental change from existing policies. Specifically, the Policy affirms the currently used Rehabilitation and Enterprise Fund guidelines, clarifies and adjusts targets for cash flows available for debt service and operating costs, and adjusts targets for sizing Reserves (previously 40% of Operating Expenses).

In its most abbreviated form, the Policy targets 1.80x DSC without Reserves for the Water and Wastewater Utilities and an Operating Ratio of 1.30x for the Solid Waste Utility. It targets Unrestricted Reserves sized at 270 Days’ Cash plus 1.0 – 2.0% of Capital Assets for

the Water and Wastewater Utilities and 90 Days' Cash for the Solid Waste Utility and establishes tolerable maximums. The Policy also provides recommended conditions for rate actions when cash flows and/or Reserves deviate from the targets. The table below summarizes the policy targets described above.

<b>Summary of Policy Targets</b>			
<b>Utility</b>	<b>Water</b>	<b>Wastewater</b>	<b>Solid Waste</b>
<b>Debt Service Coverage or Operating Ratio (x) Reserves (Days' Cash)</b>			
	1.80 DSC	1.80 DSC	1.30
Operating Risk Management	90	90	90
System Critical Failure (% of Capital Assets)	1-2%	1-2%	0%
Rate Stabilization	180	180	0
<b>Total</b>	<b>270 + 1-2% of Capital Assets</b>	<b>270 + 1-2% of Capital Assets</b>	<b>90</b>

The Policy is intended to be revisited and updated periodically if there are material changes in the risk exposures or conditions each Utility faces.

Finally, and perhaps most importantly, the Policy is ultimately intended to serve as a guide and it in no way restricts the ability of the City Council to review proposed rate actions, debt issuances, or other actions of substance to each Utility.

## Appendix I –Peer Water Utility Financial Management Results

Peer Water Utility Financial Results (FY2014)			
Utility	City of Redding <sup>1</sup>	City of Sacramento <sup>2</sup>	Yuba City
Ratings (M/S/F)	-/AA/-	-/AA-/AA-	-/A+/AA-
<b>Revenues/Expenses</b>			
Operating Revenues	\$18,423,339	\$94,382,000	\$11,794,764
Operating Expenses (Excluding Depreciation)	\$13,245,963	\$43,215,000	\$4,815,664
Net Operating Revenue	\$5,177,376	\$51,167,000	\$6,979,100
Non-Operating Revenue (Expenses)	\$1,074,049	(\$4,373,000)	\$2,468,918
Net Revenue Available for Debt Service <sup>3</sup>	\$6,515,804	\$46,794,000	\$5,204,350
Depreciation & Amortization	\$3,457,758	\$16,951,000	\$4,718,299
Net Revenue after Depreciation & Amortization	\$2,793,667	\$29,843,000	\$4,729,719
<b>Cash</b>			
Unrestricted <sup>4</sup>	\$23,402,105	\$71,087,000	\$14,543,831
Days' Cash on Hand	645	600	1,102
<b>Debt</b>			
Total Debt Outstanding	\$5,925,956	\$399,134,612	\$50,214,569
Annual Debt Service	\$1,091,335	\$11,279,000	\$2,915,149
Debt Service Coverage (Operating)	5.97x	4.15x	1.79x
Debt Service Coverage	4.74x	4.54x	2.39x

<sup>1</sup>Issues debt through the Redding Joint Powers Financing Authority

<sup>2</sup>City of Sacramento reports data rounded to the nearest thousand

<sup>3</sup>If not specified, assumed to be Net Operating Revenue (Excluding Depreciation) plus Non-Operating Income

<sup>4</sup>Unrestricted Cash defined as: "Unrestricted Net Assets"

Data from City of Redding, City of Sacramento, and Yuba City comprehensive annual financial reports

## Appendix II –Peer Wastewater Utility Financial Management Results

Peer Wastewater Utility Financial Results (FY2014)			
Utility	City of Redding <sup>1,3</sup>	City of Stockton	City of Vacaville
Ratings (M/S/F)	-/AA/-	Ba1/-/A-	-/-/-
<b>Revenues/Expenses</b>			
Operating Revenues	\$22,720,092	\$59,953,318	\$32,219,462
Operating Expenses (Excluding Depreciation)	\$12,527,074	\$40,172,822	\$18,603,458
Net Operating Revenue	\$10,193,018	\$19,780,496	\$13,616,004
Non-Operating Revenue (Expenses)	(\$175,350)	(\$3,662,856)	(\$662,109)
Net Revenue Available for Debt Service <sup>2</sup>	\$11,645,032	\$21,057,331	\$12,953,895
Depreciation & Amortization	\$5,924,400	\$11,161,304	\$5,367,829
Net Revenue after Depreciation & Amortization	\$4,093,268	\$4,956,336	\$7,586,066
<b>Cash</b>			
Unrestricted <sup>3</sup>	\$20,151,993	\$38,576,321	\$61,918,880
Days' Cash on Hand	587	350	1,215
<b>Debt</b>			
Total Debt Outstanding	\$91,119,042	\$81,270,000	\$168,768,665
Annual Debt Service	\$8,117,463	\$7,373,138	\$8,557,860
Debt Service Coverage (Operating)	1.26x	2.68x	1.59x
Debt Service Coverage	1.43x	2.86x	1.51x

<sup>1</sup>Issues debt through the Redding Joint Powers Financing Authority

<sup>2</sup>If not specified, assumed to be Net Operating Revenue (Excluding Depreciation) plus Non-Operating Income

<sup>3</sup>Unrestricted Cash defined as: "Unrestricted Net Assets"

Data from City of Redding, City of Stockton, and City of Vacaville comprehensive annual financial reports